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ECONOMIC INTELLIGENCE WEEKLY REVIEW

1 December 1978

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UGANDA: US TRADE EMBARGO ADDS TO ECONOMIC WOES

The Ugandan economy, already suffering from lower world coffee prices and government mismanagement, will deteriorate further because of the US trade embargo in effect since early October. Even as alternative markets for Uganda's coffee are being found, lower prices—coupled with stagnant production—are pushing export earnings down and accelerating the decline in the economy's modern sector. Short petroleum supplies caused by US oil companies' observance of the trade boycott may have been one reason for President Amin's pullback from his recent invasion of Tanzania. (The invasion in part had been a diversion designed to help paper over unrest in the Ugandan Army.)

Although the embargo is highly unlikely to topple the Amin government, the economic difficulties are eroding one of the principal underpinnings of Amin's control, namely, his ability to buy off potential opponents in the military. One consequence may be more "government by crisis," including claims of invasions or of attempted coups, to divert attention from economic hardships.

Economic Problems Brewing

Amin's ill-advised economic actions began almost as soon as he took power in 1971. He moved to divert attention from a balance-of-payments crunch and other economic problems by declaring an "economic war" on foreign influences in the country. Exploiting racial tensions, the President blamed Uganda's Asian population of roughly 40,000 for the economy's ill health and proceeded to expel the Asians from the country.

Since Asians made up most of the country's managers and skilled labor, their departure seriously impaired the day-to-day functioning of the economy. In particular, local industry and plantation agriculture suffered sharp losses in quantity and quality of output as Asians were replaced by inexperienced Ugandans. The loss of

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Uganda: Balance of Payments

Million US \$

	1973	1974	1975	1976	1977	1978 ¹
Trade balance	74	22	-24	87	373	112
Exports (f.o.b.)	278	299	229	326	745	452
Of which						
Coffee	183	179	169	299	710	430
Imports (c.i.f.)	204	277	253	239	372	340
Net services and transfers	-31	-47	-30	-43	-55	-55
Current account balance ..	43	-25	-54	44	318	57
Capital account balance ..	-48	-13	31	-45	-85	-80
Errors and omissions	6.3	28	20.5	-1.7	-237.4 ²	24.9
Change in reserves	1.3	-10	-2.5	-2.7	-4.4	1.9

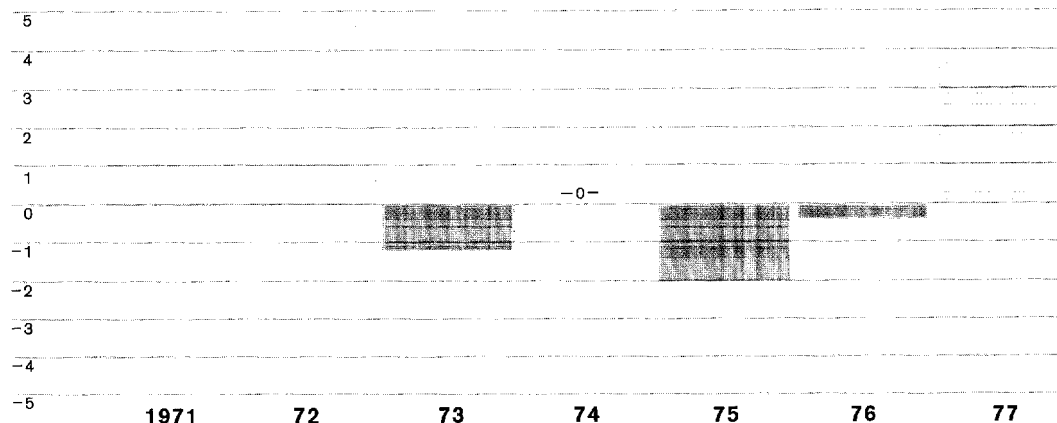
¹ Projected.² Apparently reflects a large amount of coffee smuggling and capital outflows.

Asian traders severely disrupted the collection and distribution of goods between rural and urban areas and to and from foreign markets. Amin's dangerously unpredictable actions induced many educated Ugandans to follow the Asian exodus, aggravating management shortages. Amin responded by appointing loyal, but largely illiterate, Army officers to management positions.

As a result, the economy has contracted in most years since Amin took power. Production of coffee, Uganda's chief cash crop and export, fell from 200,000 tons in

Uganda: Real Growth in GNP

Percent



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1971/72 to 137,000 tons in 1975/76. In 1976, high world prices for coffee temporarily led to a boost in the trade account. By 1977, higher coffee prices had turned both coffee production and economic growth around, pushing them up to 156,000 tons and 4 percent, respectively. In addition, the small industrial sector improved slightly last year, but most firms are still operating at barely 30 percent of capacity.

Beyond the managerial and commercial elements, the majority of citizens have suffered from the loss of job opportunities and shortages of consumer goods that would have been available under more moderate leadership. The population also has suffered from physical harassment at the hands of Amin's ill-disciplined and bloodthirsty State Research Bureau and the Ugandan Army.

Balance of Payments

High world coffee prices kept the Ugandan current account in substantial surplus in 1976-77, despite the negative impact of Amin's policies on production. Ugandan robusta coffee prices rose from 61 cents a pound in 1975 to \$1.28 in 1976 and \$2.23 in 1977; coffee revenues soared from 66 percent of export revenues in the early 1970s to 95 percent in 1977. The resulting trade surplus offset both a persistent deficit on services and most of the large capital outflows.

This year the trade surplus is declining because of reduced US demand for Ugandan coffee, a sharp falloff in world coffee prices, and transportation problems:

- US coffee imports from Uganda fell by 46 percent in January-October 1978 (compared with the first 10 months of 1977), to \$111 million, as buyers began looking elsewhere in anticipation of the embargo.
- Robusta prices have declined to about \$1.40 a pound.
- A coffee airlift to the Red Sea port of Djibouti, used by Uganda to counter bottlenecks on the overland route through Kenya, was recently grounded because of fuel shortages.

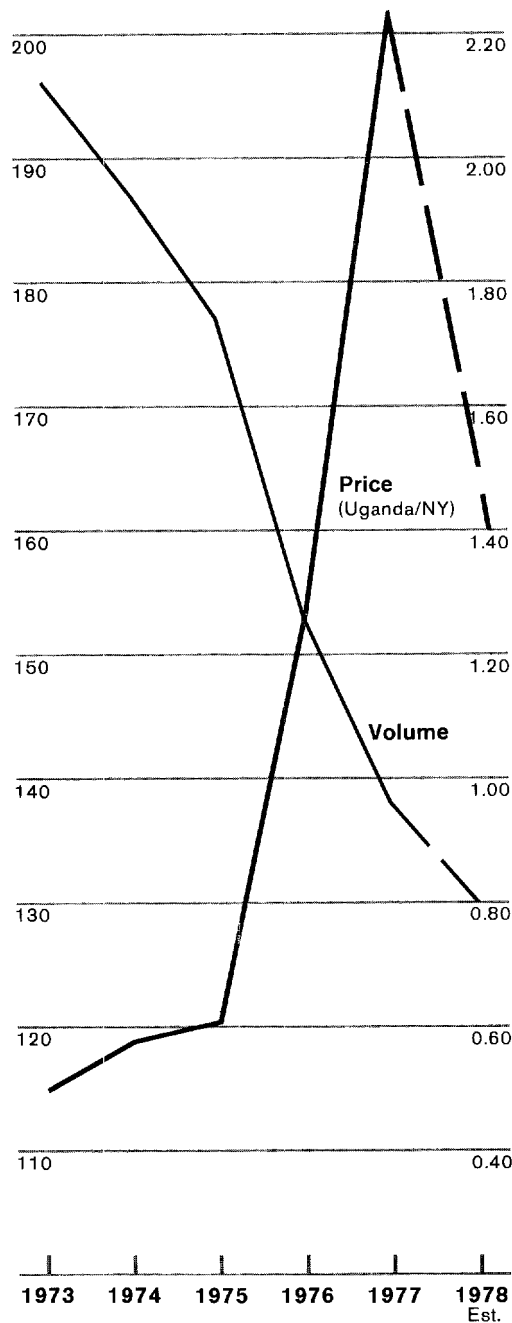
Despite its generally favorable current account position, Kampala has piled up arrears on import payments because of mismanagement by trade and bank officials. Arrears, estimated to have been \$63 million by yearend 1977, are continuing at high levels in 1978. As a result, most exporters now are requiring prepayments for goods shipped to Uganda. In July of this year, the foreign oil subsidiaries that supply Uganda (Shell/BP, AGIP, Total, Caltex, Mobil, and Exxon) suspended all oil shipments until payment was made on \$20 million to \$30 million in overdue bills. The chaotic state of financial management in Kampala is further indicated by the extraordinarily large entries for "errors and omissions" in Uganda's balance of payments; these apparently

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Uganda Coffee:

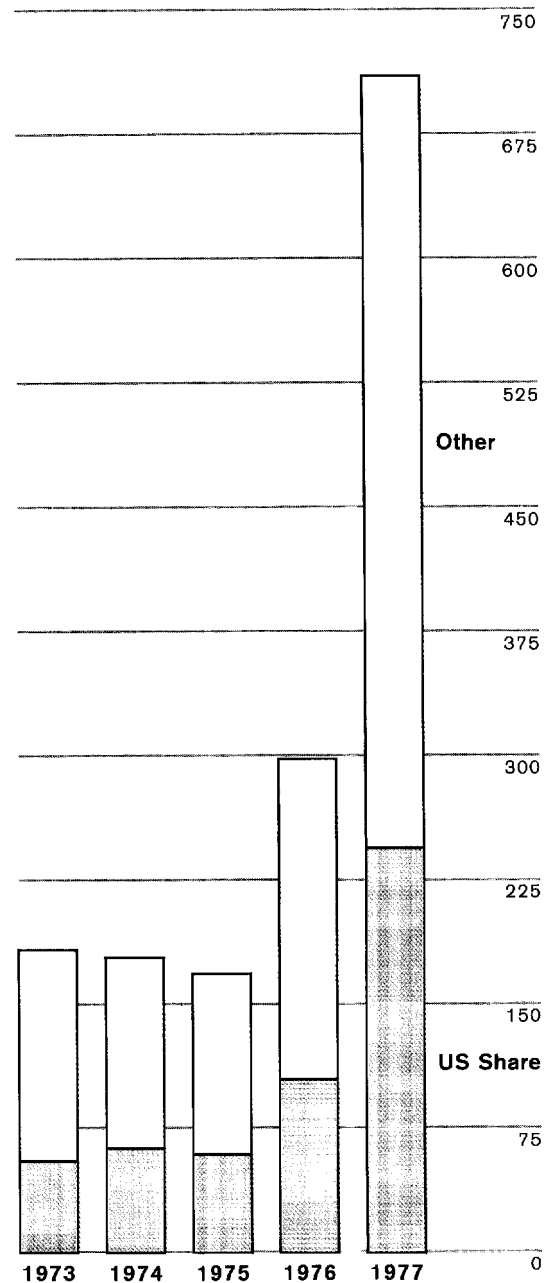
Export Volume and Price

210 Thousand Tons US\$ Per Pound 2.40



Exports to Major Markets

Million US\$ 825



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reflect widespread coffee smuggling, reportedly in part by Amin himself, plus undocumented capital outflows.

Impact of US Embargo

The US trade restrictions combined with the general downward trend in coffee prices will accelerate the fall in Uganda's trade surplus and undermine local coffee production. Although the United States normally buys only 6 percent of its coffee from Uganda, US purchases have represented about one-third of Ugandan coffee exports. US importers have already increased purchases from Indonesia, Ivory Coast, and Zaire to make up for the loss of Ugandan robusta coffee. Uganda, for its part, should be able to find alternative outlets—it has already approached Japan and reportedly has booked firm orders from East Germany. In order to sell off available supplies as the harvest progresses, the government probably will have to cut prices. Kampala may consider sales or barter deals with the USSR or Libya, its major aid suppliers.

On the import side, the most immediate and critical loss will be oil. Ugandan stocks equal only about 14 days' supplies, at best. Oil purchases from the Kenyan subsidiaries of US firms had accounted for 40 percent of Uganda's petroleum imports of about 8,000 to 9,000 b/d. The US embargo, therefore, coupled with reduced deliveries from British suppliers because of payments arrears, is forcing further belt tightening. The worst effects of the oil shortage will be felt in domestic transportation, making it increasingly difficult to get crops to markets.

Kampala is having a hard time finding alternative oil suppliers despite Amin's close political ties with Libya and other Arab countries. Even if appeals to his Arab supporters prove successful, physical delivery would have to depend on Kenyan cooperation. Moreover, while subject to pressure because of Ugandan Government equity participation in distribution facilities, French and Italian suppliers would be extremely reluctant to pick up the slack because of Kampala's poor payments record.

Consequences for the Future

The erratic management of the economy, together with the US embargo and the growing suspicion of Uganda's creditworthiness, will keep Ugandan economic growth in the red for the foreseeable future. The current coffee harvest is expected to remain unchanged from last year's, while robusta coffee prices, which have been stable over recent months at about \$1.40 a pound, are expected to resume their slide. Amin's government will also face tighter transportation bottlenecks because of fuel shortages and increased smuggling and corruption as Uganda's economic institutions continue to unravel.

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Compounding Amin's problems will be the probable growth in tensions with neighboring Tanzania, Kenya, Rwanda, and Sudan. The recent invasion of Tanzanian territory has strengthened Nyerere's dislike and distrust of the Ugandan dictator. The Kenyan monopoly on ground transport to Uganda, which Nairobi has used in the past to impede Uganda's foreign shipments, will continue to pose the threat of economic strangulation. On the other hand, Rwanda and southern Sudan remain at the mercy of Amin's capricious behavior and of his relations with Nairobi because both depend on the same trans-Kenya routes, extended through Uganda.

Rather than toppling Amin, Uganda's economic problems will probably induce even more radical measures to preserve power. Maintenance of economic privileges for the military, such as duty-free imports of consumer luxuries and plentiful supplies of fuel at subsidized prices, will receive the highest priority—at an increasing cost to the remainder of the beleaguered economy. Following the established pattern, even more frequent claims of invasions, coup attempts, and assassinations are probable. (Secret Nofoin-Nocontract)

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SINGAPORE: MANUFACTURED EXPORTS POISED FOR 1980s *

A skilled labor force, highly competitive products, and an advantageous position as a major Asian entrepot have enabled Singapore to improve its status as an LDC exporter of manufactured goods in the 1970s. With exports of domestic manufactures expected to reach \$2.5 billion this year, Singapore ranks somewhat behind more populous India and Brazil, but ahead of Mexico among LDC exporters. The mix of its manufactured exports is heavily weighted toward electronic products and high-technology goods, such as integrated circuits and other semiconductors.

Government economic policy and the personal involvement of Prime Minister Lee Kuan Yew have contributed to Singapore's success. Recent export gains have been based on pushing sales to OECD markets, which absorb more than two-thirds of Singapore's foreign sales of manufactures. Government policy stressing further development of high-technology industries should provide the impetus to sustain rapid export growth. By the early 1980s, exports of domestic manufactures will likely approach \$5 billion, with the bulk of these sales going to the United States and Western Europe.

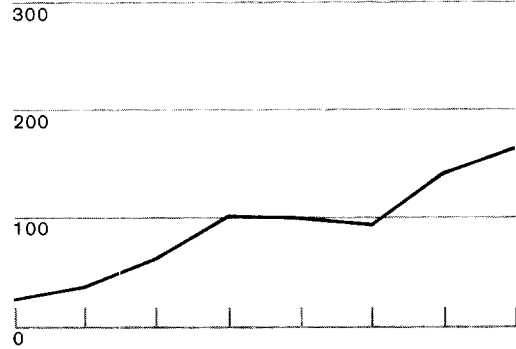
* This article discusses exports of Singapore's domestically produced manufactured goods; it excludes reexports of manufactures, which amounted to \$1.4 billion in 1977.

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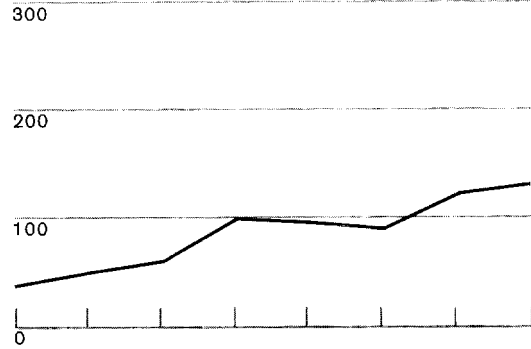
Singapore: Commodity Export Trends

Dollar Value Index: 1973=100

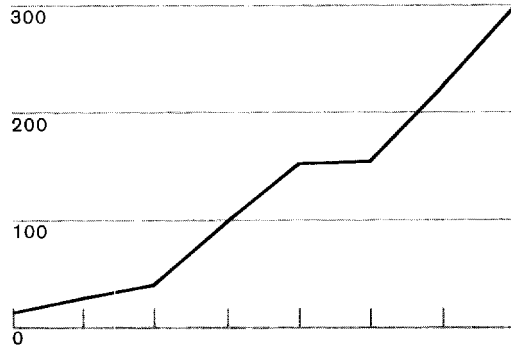
Clothing



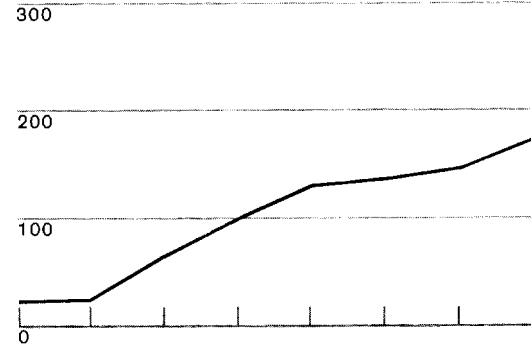
Textile Fabrics, Yarn



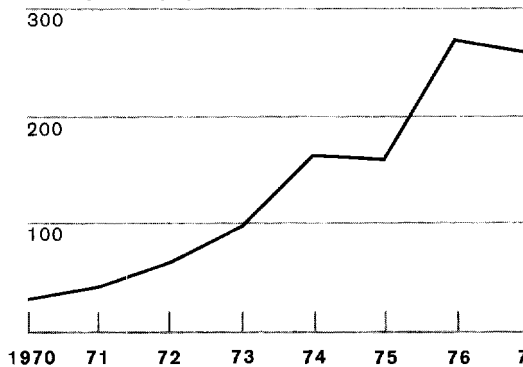
Electric and Electronic Equipment



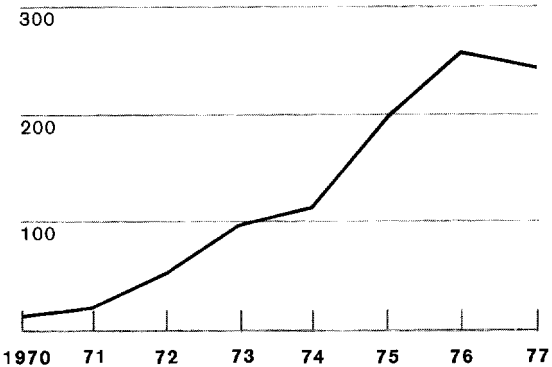
Non Electric Machinery



Transport Equipment



Cameras



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Singapore: Manufactured Exports, by Destination

	Million US \$		Average Annual Percent Growth
	1970	1977	
World	180	2,150	43
OECD	77	1,490	53
United States	20	703	66
Japan	21	112	27
West Germany	3	187	80
United Kingdom	11	92	35
Other	22	396	51
LDCs	100	630	30
OPEC	0	60	
Asian	89	406	24
Hong Kong	12	76	30
Malaysia	21	113	27
Other	56	217	21
Non-Asian	11	164	47
Communist	3	30	39

Export Dynamics

Booming exports of manufactures between 1970 and 1977 kept Singapore in the big league of LDC exporters. Foreign sales climbed from \$180 million in 1970 to \$2.2 billion in 1977, growing at a rate of 43 percent annually. This year export growth is slowing, partly because of increased protectionism in Western Europe; sales are still expected to rise to \$2.5 billion.*

Export growth in the 1970s stems from economic policy decisions taken after Singapore's separation from Malaysia in 1965. At that time the government viewed the development of export-oriented manufacturing as the path to economic survival and growth. Although the government has provided little in direct export subsidies, all aspects of economic policy have been geared toward supporting development of export-oriented manufacturing industries. The key means has been creation of the stable economic and political environment needed to attract large inflows of foreign investment. Lee Kuan Yew is intimately involved in this process and passes on all major economic policy, investment proposals by foreign interests, and wage decisions.

Singapore's share of exports of manufactured goods to the OECD countries increased from 0.1 percent in 1970 to 0.6 percent in 1977. This surge has been accompanied by an enormous expansion of export-oriented manufacturing industries.

* This figure excludes not only reexports but also the large volume of unrecorded trade with Indonesia, which involves upward of \$150 million in manufactured exports from Singapore.

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A decade ago the electronic equipment industry consisted of a few plants with output valued at only \$5 million. By 1977, the industry had grown to 125 firms with output of almost \$500 million, more than 90 percent for export. Similarly, exports of telecommunications equipment soared from less than \$10 million to almost \$300 million during the period.

Singapore now exports a diverse array of manufactured items ranging from electronic equipment and electrical machinery to cameras and textiles. Sales of electronic products and other high-technology items have increased by more than \$1 billion since 1970, 55 percent of the overall gain in manufactured exports. Consumer

Singapore: Manufactured Exports, by Commodity

	Million US \$		Average Annual Percent Growth
	1970	1977	
Total	180	2,150	43
Wood and cork	14	82	29
Textiles	7	60	36
Clothing	21	180	36
Office machinery	11	71	31
Telecommunications apparatus	7	293	70
Electric and electronic equipment	37	502	45
Electric generating and other electric and nonelectric machinery ..	40	188	25
Ships and boats	3	197	82
Cameras	Negl	51	
Watches and clocks	1	44	72
Toys and sporting goods	1	32	64
Pharmaceuticals	3	69	57
Plastic materials	1	27	60
Other	34	354	40

nondurables (mainly textiles and clothing) accounted for about 10 percent of the gain; intermediate products (such as wood and iron and steel) and chemicals, for 20 percent; and miscellaneous items such as ships and sporting goods for 15 percent.

Market Penetration

OECD countries have become increasingly important markets for Singapore; sales last year reached \$1.5 billion, compared with less than \$80 million in 1970. The United States is by far the leading OECD customer. Exports to the LDCs, about \$630 million in 1977, go primarily to other Asian countries.

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United States

Exports of manufactured goods to the United States, Singapore's single largest market, reached \$700 million in 1977 compared with \$20 million in 1970. The US market absorbed one-third of Singapore's machinery, electronics products, and electrical equipment exports, taken together. Since 1970 Singapore has done exceptionally well in garnering a larger share of the electric and electronic equipment market, raising its market share from 2.2 percent to 6.1 percent. As for consumer electronic products (largely television sets and audio equipment and components), it now holds a 1.4-percent share of the US market compared with 0.2 percent in 1970. Overall, Singapore's share of the US import market in manufactures has grown from 0.2 percent in 1970 to 0.8 percent in 1977.

Western Europe

Sales to Western Europe reached \$580 million in 1977, compared with \$27 million in 1970.* West Germany, the United Kingdom, and France are the leading customers. Clothing, electric and electronic equipment, and cameras have been the leading exports, giving Singapore a 0.7-percent share of the import market in West Germany, a 0.6-percent share in the United Kingdom, and a 0.7-percent share in France. Singapore's penetration of the clothing and textile import markets has contributed to the general protectionist reaction against imports of LDC manufactures. Under the Multi-Fiber Arrangement of December 1977, import quotas on Singapore's sales of apparel to EC countries restrict volume increases to a maximum of 6 percent annually over 1976 levels. Singapore's greatest market penetration has been achieved in the highly competitive electric machinery market where its share of EC imports increased from 0.5 percent to almost 2 percent between 1970 and 1977.

East Asia

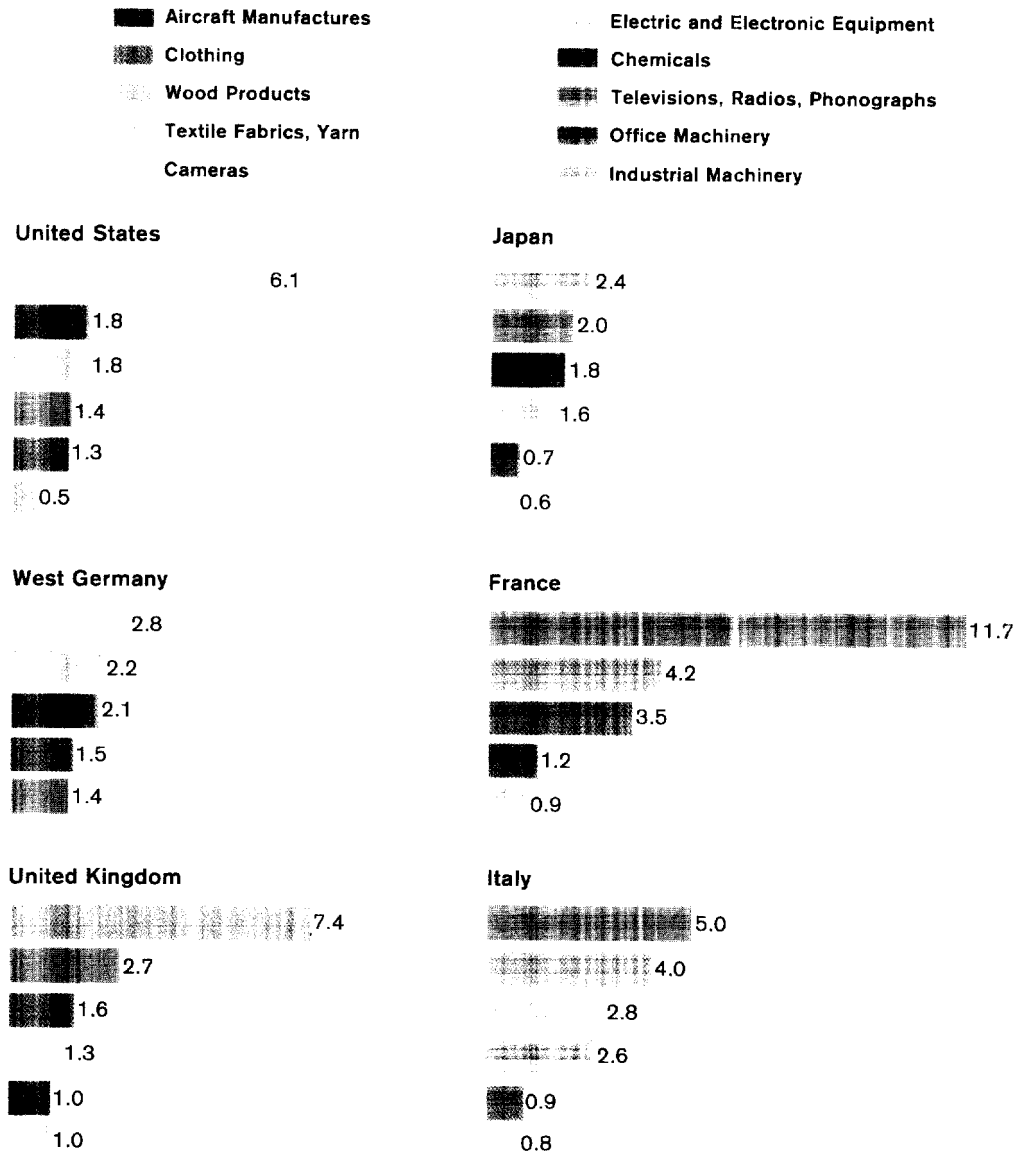
Hong Kong is Singapore's seventh largest export market for domestic manufactures, sales reaching \$76 million in 1977. The two city-states complement each other since they both export and import different product lines within the same manufactured product categories. For example, electronic components and subassemblies to Hong Kong are a leading Singapore export; these items are incorporated into finished manufactures in Hong Kong, which are then sold abroad. Hong Kong is also a major market for Singapore's electric machinery and its largest market for cameras. At the same time, Singapore imports many products in the same categories from Hong Kong as components for its manufactured exports.

* Singapore's market share in EC countries decreases considerably when intra-EC trade is taken into account, dropping from 0.7 percent to 0.3 percent for all manufactures. Its share of electric and electronic equipment exports to West Germany, for example, drops from 2.8 percent to 1.3 percent when intra-EC trade is included.

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Singapore: Major Commodity Market Penetration, 1977¹

Share of Import Market (Percent)



1. Excluding Intra-EC Trade

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Singapore's sales of domestically produced goods to Malaysia amounted to \$113 million in 1977 and consisted largely of machinery, chemicals, textiles, and intermediate products. Another \$620 million in reexport sales of manufactured products to Malaysia appear in Singapore trade data.

Sales to Japan increased from \$21 million in 1970 to \$112 million in 1977. Electric machinery achieved the largest penetration, capturing a 2.4-percent share of the import market by 1977; transport equipment, chemicals, and cameras have also done well. Although Singapore has increased its overall import market share for manufactures from almost nothing to about 1 percent, the Japanese market remains a tough nut to crack. The Singapore Manufacturers Association has been considering the establishment of a marketing company in Japan to increase export sales.

Competitive Factors

Singapore's export growth reflects the good job done by both business and government in maintaining the competitiveness of its manufactured products. For one thing, the government has successfully kept inflation under control; domestic wholesale prices of manufactured products have increased 7.4 percent annually since 1973, considerably lower than the increases posted by many other leading LDC exporters. Because of the Singapore dollar's depreciation, average dollar prices* of manufactured exports have risen only 6.5 percent annually since 1974, close to the rate of other leading LDC exporters. Since early 1975, the Singapore dollar has been permitted to depreciate on a bilateral price-adjusted basis 10 percent against the US dollar, 22 percent against the Japanese yen, and 9 percent against the West German mark.

Singapore has had a justified reputation among East Asian LDC manufacturing centers as a tough town for labor, largely because of strict government policies. Since 1972, the National Wage Council, a tripartite group consisting of representatives of the government, business, and labor, has established annual wage guidelines, which have been closely followed. In holding down labor costs, Singapore has particularly benefited from rapid gains in productivity, which averaged 4.8 percent from 1975 to 1977; unit labor costs declined slightly during this period. Singapore has also been helped by the discipline and level of education of its labor force, which are unsurpassed in Southeast Asia. Labor, for its part, has been rewarded by increasing job opportunities and rising real wages.

Multinational corporations have played a key role in the export growth, particularly in high technology fields. The multinationals have supplied Singapore with capital, managerial talent, and markets for manufactured products. These firms

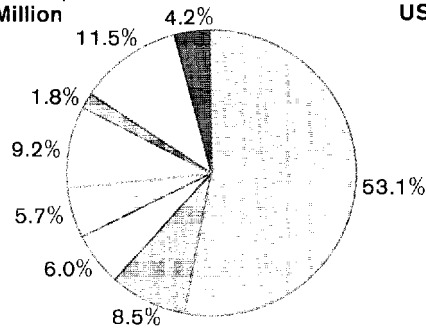
* All figures are in US dollars unless otherwise specified.

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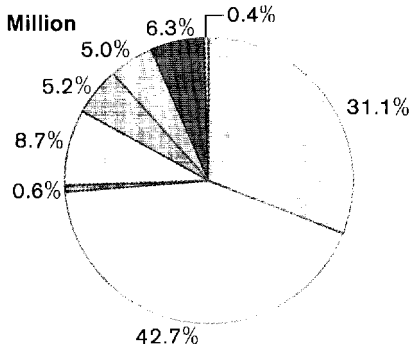
Singapore: Selected Exports, by Destination, 1977



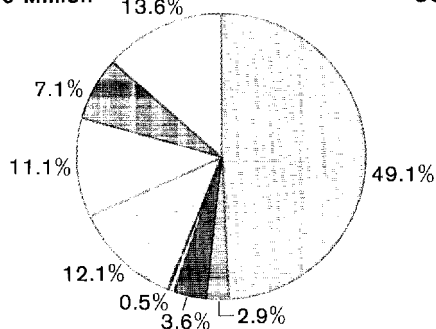
Textile Fabrics, Yarn
US \$ 60 Million



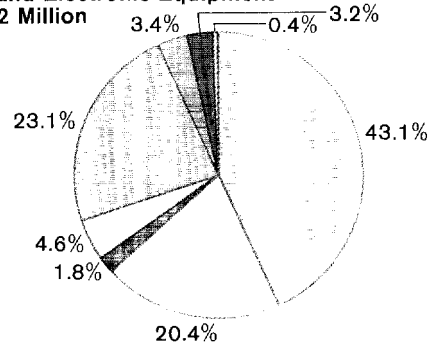
Clothing
US \$ 180 Million



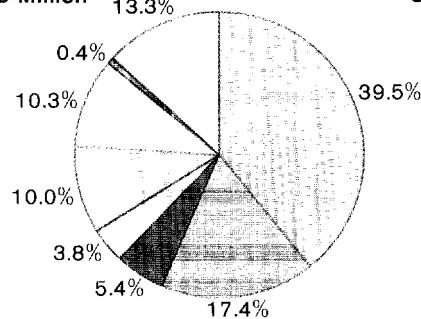
Non Electric Machinery
US \$ 430 Million



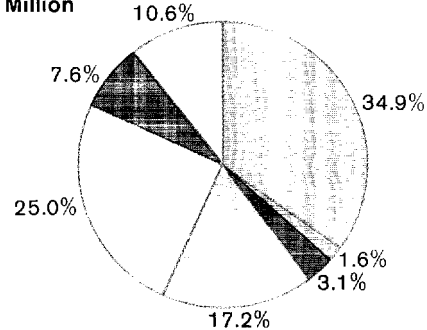
Electric and Electronic Equipment
US \$ 502 Million



Transport Equipment
US \$ 208 Million



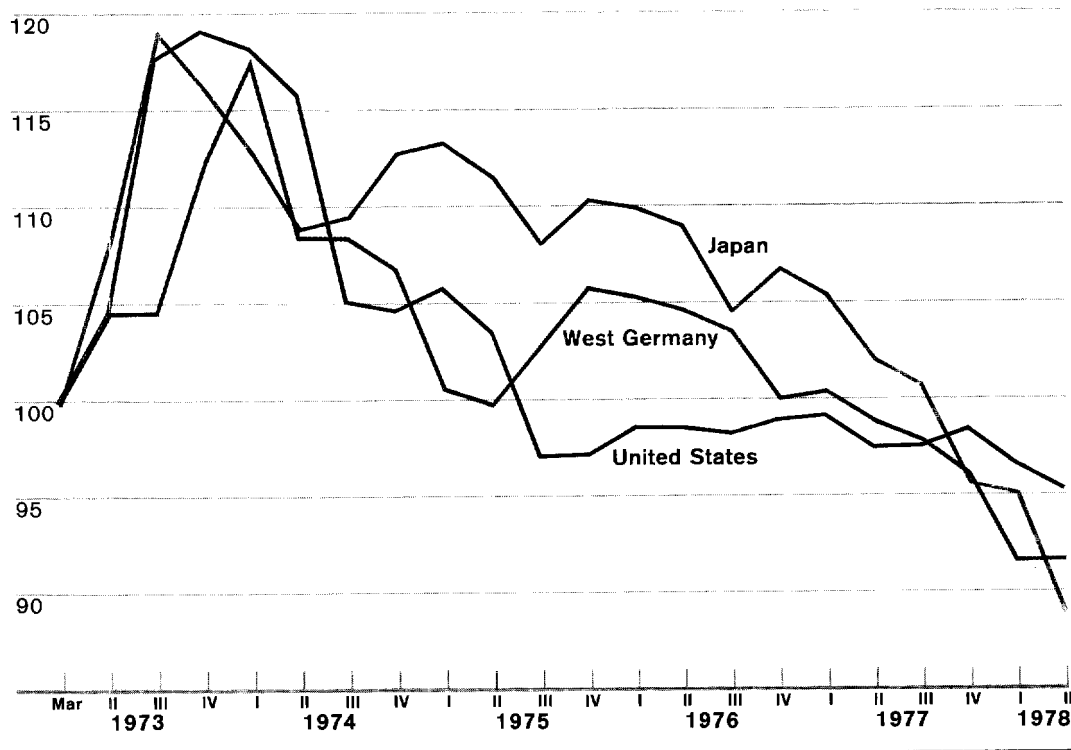
Cameras
US \$ 51 Million



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Singapore: Price-Adjusted Bilateral Exchange Rates

Index: Mar 1973=100



have set up their own facilities as well as subcontracted with local firms; they export both finished products and components. For example, the Dutch electronics giant Philips subcontracts work to local firms for plastic components used in the radios, television sets, and telephones produced in its five Singapore factories. Among leading US multinationals operating in Singapore are General Electric, Texas Instruments, and Union Carbide.

The multinationals are also attracted by Singapore's highly developed financial and banking systems and its superb international transportation facilities and communications links. Singapore has Southeast Asia's largest container terminal and is the major transshipment point for cargoes moving to, from, and within the region.

Government Policies

The government has generally eschewed direct export incentives because most manufactured products are already highly competitive in international markets and

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are in growing demand. Recently the government began to modify this policy because of growing protectionism in several foreign markets. Earlier this year, for example, it announced a package of export incentives including tax breaks for firms operating sales offices overseas and attending international trade fairs.

The government for many years has aggressively promoted the establishment of high-technology manufacturing industries through a variety of tax and other incentives. For example, it has established the Jurong industrial park on the outskirts of Singapore to house more than 600 manufacturing plants which produce largely for export. Other aspects of government policy to encourage manufacturing development include the provision of subsidized housing for low-income workers and subsidized transportation.

Singapore's major promotional tool is the Economic Development Board (EDB), a one-stop investment promotion agency with offices in major foreign cities. Besides handling inquiries and evaluating the feasibility of proposed projects, the EDB helps investors to obtain factory sites, long-term financing through the Development Bank of Singapore, qualified labor, and supporting services. It also determines which types of industries to encourage. In 1977 it picked out five high-technology product areas for intensive promotion among potential US investors: (a) aviation and avionics equipment; (b) communications equipment; (c) specialty chemicals; (d) medical instruments; and (e) consumer and industrial electronic products.

Investments that meet the government's criteria are designated "pioneer industries" and become eligible for tax and other incentives under the Export Expansion Incentives Act. The law, which has been amended several times since 1972 to liberalize the incentives, offers companies the following benefits on approved projects:

- A tax holiday of five to 10 years.
- Tariff concessions on imported capital equipment.
- Accelerated depreciation allowances on capital equipment.
- Preferential credit assistance.
- Aid in training labor.
- Elimination of capital export restrictions for nonresidents.
- Easing of immigration requirements for foreign managers and other key personnel.

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The government has actively discouraged the establishment of new labor-intensive, export-oriented manufacturing industries (particularly textiles), largely because it sees little hope of competing with other East Asian exporters. Indeed, Prime Minister Lee Kuan Yew has said that he hopes to see much of Singapore's existing labor-intensive industry move to other East Asian countries over the next several years.

Singapore is among the leading LDC beneficiaries of the Generalized System of Preferences (GSP). In 1977, some \$500 million worth of its manufactured exports were eligible for GSP treatment, nearly one-tenth of the total benefit accruing to LDCs. The benefits of GSP have been partially offset by recent rises in nontariff barriers, such as quotas on textiles and clothing in EC countries. In the US market, GSP benefits have been pared because (a) specific products, such as solid state radio receivers, are excluded from the list of eligible items and (b) more than 35 percent of the value-added of some manufactured goods is of non-Singaporean origin. Even so, Singapore has vigorously and successfully resisted efforts by several international financial institutions to reclassify it as a developed country because this would mean loss of GSP benefits.

The Next Few Years

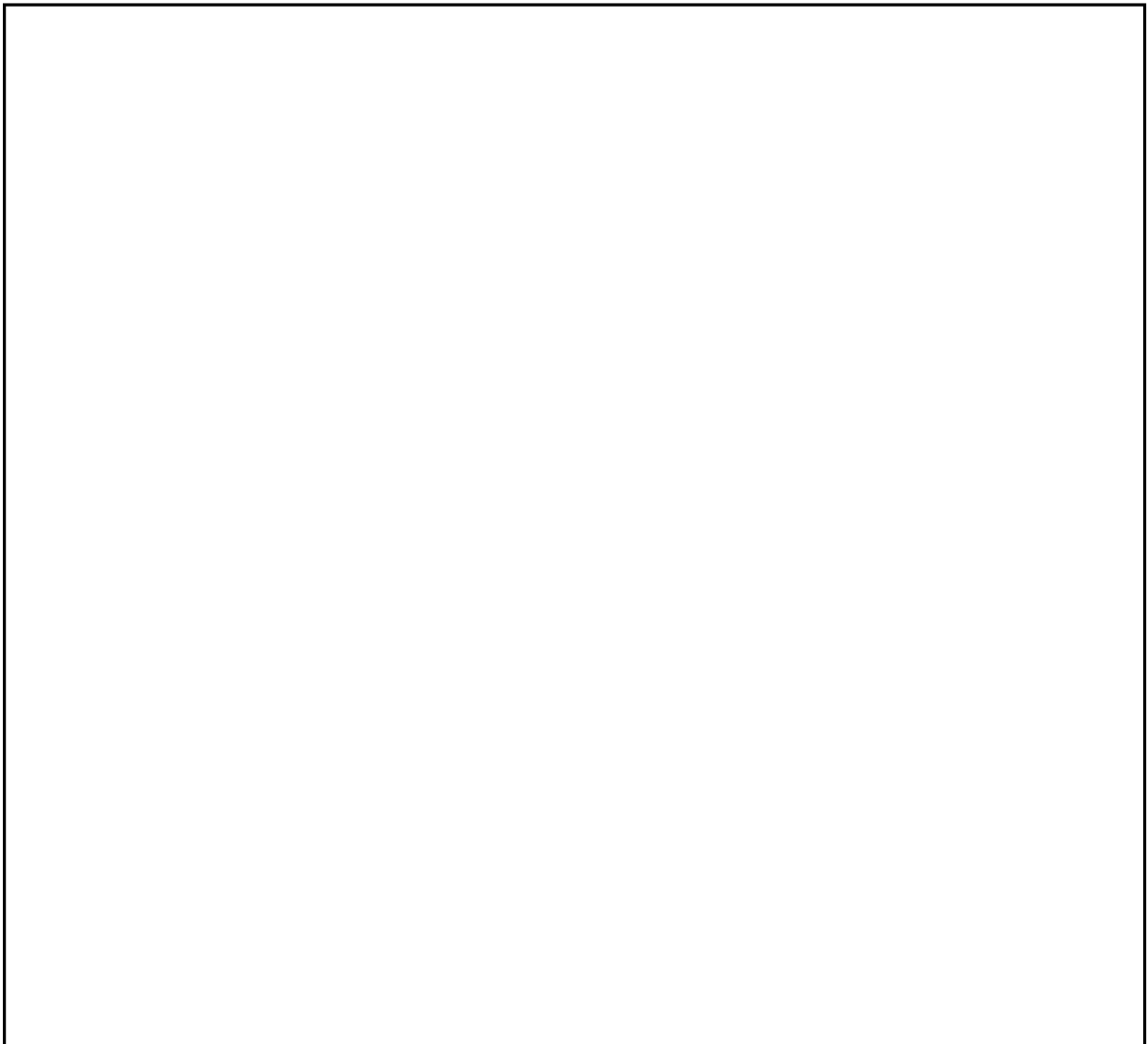
Singapore's manufactured exports should continue to prosper in the next few years. We expect manufactured exports to grow at 15 to 20 percent annually, a pace that will raise sales to about \$5 billion by the early 1980s. The government is successfully pushing its policy of encouraging establishment of technologically advanced industries and upgrading existing high technology manufacturing operations. This year, for instance, General Motors has started construction of an \$8 million plant to manufacture automotive electronic equipment for the US, West European, and Asian markets. Also, a leading US manufacturer of drill bits and other oilfield equipment, Baker Oil Tools, announced plans to open a \$6 million plant in Singapore. The country is already the third largest producer of offshore oil rigs, and the new facility will further strengthen its commanding position as Southeast Asia's major oil equipment export and service center.

Although the government is concerned about growing protectionism in OECD markets, its fears appear to be exaggerated. In recent years, Singapore's exporters have demonstrated their flexibility and skill in tapping new markets and developing new export product lines. The one cloud on the horizon is the tightening supply of skilled labor. To counter foreign investor's apprehension about a labor shortage, the government is already recruiting workers from neighboring Malaysia, Indonesia, and Thailand. At present, foreign workers in Singapore total about 140,000—15 percent of the labor force—and their number is likely to grow over the next several years. Nonetheless, at least some foreign investors are sufficiently worried about labor

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shortages to take a much harder look at Singapore before making new commitments. According to a recent report, a Japanese investment survey mission that visited Singapore in October is expected to recommend that Japanese manufacturers make no further investments because of the tightening labor supply and concern about export competition with Japanese products in third country markets. (Secret Noform)

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WORLD COTTON: REDUCED SUPPLIES, HIGHER PRICES

World cotton prices have jumped 15 percent in recent weeks as inclement weather reduced production prospects in several major producing countries. Further price increases will be tempered by the sluggishness of demand for textiles in OECD countries and by strong competition from synthetics. Prospects for US cotton exports appear bright due to increased purchases by China and the uncertain supply outlook for several important exporters.

Production Setbacks

World cotton production for the 1978/79 marketing year (MY) beginning 1 August 1978 is forecast at 13 million tons by the US Department of Agriculture, 6 percent below last year's harvest. World cotton acreage is expected to decline about 3 percent from the previous year. Production prospects have deteriorated steadily due to adverse growing conditions in several producing countries including the United States.

US cotton production is expected to show the sharpest decline, falling 24 percent below the record 1977/78 harvest of 3.1 million tons. While US cotton plantings were off by only 6 percent from last year, yields were sharply reduced by drought in Texas and insect infestation in California. These regions normally account for more than 55 percent of US cotton production.

World Cotton Production ¹

	Thousand Tons		
	1976/77	1977/78 ²	1978/79 ³
Total	12,686	13,920	13,050
USSR	2,615	2,770	2,680
United States	2,305	3,138	2,400
China	2,363	2,000	2,000
India	1,078	1,176	1,220
Brazil	553	450	550
Turkey	475	564	522
Pakistan	418	520	490
Egypt	396	389	375
Mexico	218	344	318
Argentina	163	230	210
Sudan	152	163	150
Guatemala	133	132	142
Nicaragua	119	131	125
Other	1,698	1,913	1,868

¹ Marketing year 1 August to 31 July.

² Preliminary.

³ Forecast.

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Heavy rains in the spring forced the Soviets to replant one-third of their cotton acreage and early October frosts may have caused some damage. Even so, the USSR should harvest the plan figure of 2.7 million tons, although production will not reach the record level anticipated earlier.

China continues to have weather problems in its principal cotton-producing region for the second consecutive year. Drought conditions during the growing season are expected to hold production to about 2 million tons, the same level as last year's poor harvest. Inclement weather and insect infestation in recent weeks has also reduced Pakistan's cotton harvest by more than 200,000 tons from original estimates.

Heavy flooding delayed planting in Sudan and output is expected to be down from last year. Internal strife in Nicaragua has created financing and labor problems for the upcoming cotton harvest and an additional outbreak of violence could result in a substantial reduction from the level currently projected. Brazil, which suffered a severe drought in the southern cotton growing area last season, has continued to experience less than ideal weather conditions which could cause production to fall below the projected level.

Sluggish Consumption

World consumption of raw cotton in 1978/79 is forecast to increase 200,000 tons, to 13.5 million tons. We expect the increase to be smaller because slow economic growth and strong price competition from synthetic fibers will continue to limit demand in the developed countries.

Demand for raw cotton in Western Europe is not expected to improve over the 1.2 million tons consumed in MY 1977/78. The cotton-weaving industry is suffering a severe recession in several countries as (a) demand for final products is down; (b) imports of cotton yarns and semifinished and finished textiles continue strong; and (c) the competition from synthetics bites deeper.

Growth in demand for raw cotton in the Far East will account for the major share of the increase in world consumption in MY 1978/79. The cotton textile industries in South Korea, India, Thailand, Singapore, and the Philippines, among the world's most efficient, are taking a growing share of export markets. In addition, raw cotton usage is expected to strengthen in Japan as domestic consumption is increased through government measures to stimulate textile demand.

A small increase in raw cotton consumption is expected for the rest of the world. The growth in consumption in Brazil and Egypt is expected to speed up, while cotton consumption by US mills has been maintained at year-earlier levels. East European

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countries are expected to maintain their level of cotton consumption provided the usual supply allotment from the USSR is forthcoming.

World cotton stocks are expected to register a small decline in 1978/79, as consumption exceeds production. Stocks totaled 5.2 million tons at the beginning of the current marketing year, an increase of 18 percent over the year-earlier level.

The Synthetic Scene

The world synthetic fiber industry has recently been characterized by production overcapacity, intense market competition, and weak prices. Synthetic fiber production totaled about 12.2 million tons in 1977, with only 75 percent of production capacity in use. Adding to synthetic fiber producers' problems is the loss of export markets in countries that are developing their own production. The gap between production and capacity is expected to continue for at least another year.

Western Europe is experiencing the most serious overcapacity problem in synthetics. An additional 180,000 tons of capacity came on stream in 1977 while total production was declining 365,000 tons from 1976 levels. EC synthetic fiber producers have reported losses of more than \$2 billion in the past three calendar years and have petitioned unsuccessfully to the Commission for authority to establish a cartel.

Japanese producers have coped more effectively with the crisis by limiting production expansion and maintaining more of their export markets. Eastern Europe has the highest capacity utilization rate at 95 percent; increases in production are expected to be only moderate over the next few years.

Expansion in synthetic fiber production is under way in China and South Korea, two countries that depend on imports to meet their needs. China's synthetic production capacity is forecast to increase from about 300,000 tons to 520,000 tons by 1980, causing further problems for synthetic fiber exporters. South Korea will add more than 45,000 tons to capacity in 1978.

Outlook for Prices and Trade

Raw cotton prices have jumped from 59 cents per pound in September to the current level of 68 cents per pound on 24 November. We expect prices to fluctuate in a range of 66 to 70 cents per pound for several months as most of the global cotton crop has been harvested. A deterioration of production prospects in Sudan, Brazil, and some other Southern Hemisphere producers would place some additional pressure on prices. Nonetheless, a further sharp advance in cotton prices similar to that of recent weeks is unlikely due to the market weaknesses cited above.

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International trade in raw cotton is expected to show a slight increase this year, based on improved import demand from countries in the Far East. The poor cotton harvest in China is expected to result in large Chinese cotton imports. Traders believe China will purchase more than 500,000 tons of cotton, 30 percent from the United States. Reduced cotton exports from Egypt, Sudan, Brazil, and Pakistan (and possible harvest problems in Nicaragua) will also help increase demand for US cotton. In addition, the decline in the value of the dollar has made US cotton attractively priced, particularly in Japan. The Japanese can still purchase cotton at last year's yen price despite a 25-percent jump in its dollar cost. (Confidential)

* * * * *

OPEC: PURCHASING POWER DECLINE

This article, reprinted from the 29 November 1978 *International Energy Biweekly Review*, addresses an issue of importance to the OPEC oil ministers, who will meet in Abu Dhabi on 16 December to decide on the increase in 1979 crude oil prices.

The real value of OPEC oil revenues has fallen 20.1 percent since the last general oil price increase in January 1977. Losses of 18.1 percent due to the decline of the US dollar and 4.7 percent due to inflation in trading partner countries were partially offset by the 5 percent price increase taken by Saudi Arabia and the United Arab Emirates in July 1977.

The Causes of the Purchasing Power Losses

The loss in the real value of oil revenues differs widely among OPEC members because of differences in what they buy and, even more, because of differences in who provides the goods. Purchasing power losses since the first quarter of 1977 have ranged from 17.1 percent for Venezuela—which purchases one-third of its imports from the United States—to 28.8 percent for Indonesia, whose major industrial trading partner is Japan.* Since OPEC oil exports are priced and paid for in US dollars, changes in the value of the dollar relative to other currencies translate into changes in the real value of oil revenues. During the last two years the Japanese yen appreciated 48 percent against the US dollar, while the Canadian dollar fell 10 percent.

OPEC Financial Distress

OPEC imports are expected to total \$99 billion in 1978, up 17 percent from 1977. In most OPEC countries the rapid increase in import prices is largely responsible for

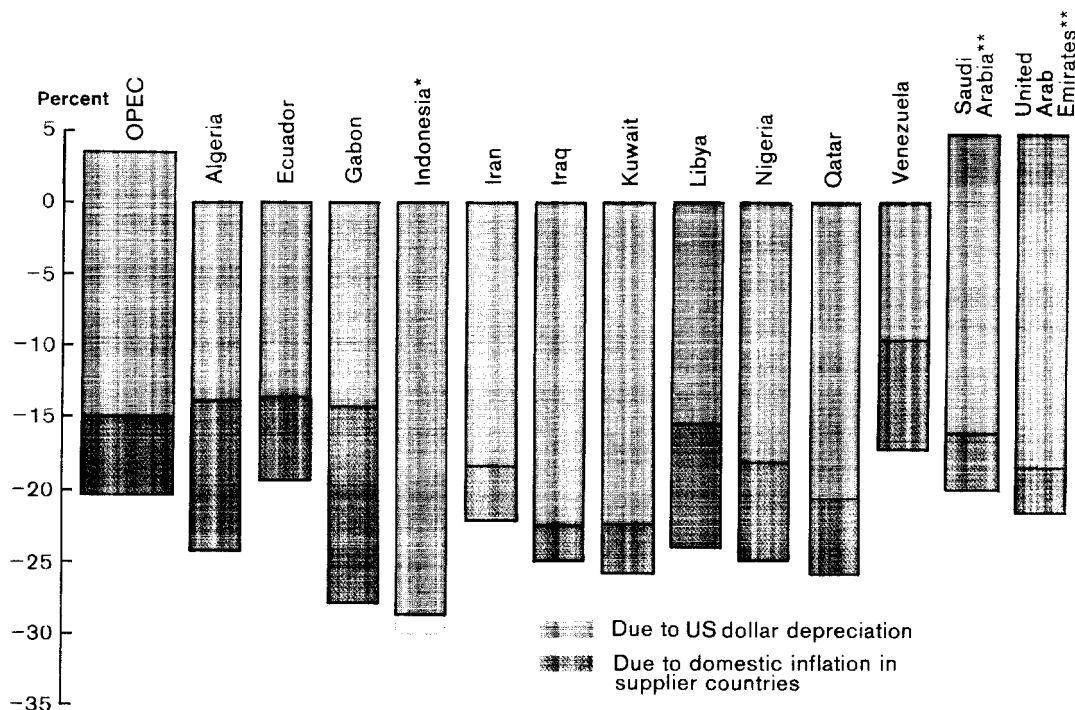
* While the yen has been appreciating rapidly, Japan has cut its export prices to retain its competitiveness. Thus, Indonesian import prices have not risen as fast as they would have otherwise.

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higher import expenditures; growth in volume accounts for only 3 percent of the jump in overall OPEC import value. Nearly all of the 15- to 20-percent increase in import expenditures by Indonesia, Kuwait, Libya, and Qatar this year is being caused by spiraling import price inflation. In Iraq, Saudi Arabia, and the UAE, where development spending has increased, the increase in the dollar value of imports reflects moderate volume growth as well as higher import prices.

The current account surplus of the OPEC countries is now expected to drop to \$5 billion in 1978, down from \$29 billion last year. Forty percent of the decline is being absorbed by Saudi Arabia, whose oil export earnings have dropped and import expenditures risen. Iran, too, is experiencing a large deterioration in its current

OPEC Countries: Loss of Purchasing Power From First Quarter 1977 Through Fourth Quarter 1978



*Domestic deflation in supplier countries has partially offset the loss of purchasing power due to US dollar depreciation.

**Saudi Arabia and the UAE raised their price for oil five percent in July 1977 to come in line with the other OPEC countries.

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account. The Iranians, who have been accustomed to running comfortable surpluses, will have a current account that is roughly in balance this year. Spending on imports increased rapidly early in the year and the total will come to \$2 billion more in 1978 than in 1977. Labor strikes in the fourth quarter will mean a loss of \$2 billion in oil earnings.

Several of the OPEC countries that were in deficit in 1977 are in even worse straits this year. Nigeria is tumbling deeply into deficit. Its spending on imports has increased while oil revenues have declined. Despite import controls, import spending was up 26 percent in the first half of 1978. Nigeria appears, however, to be coming to grips with the import problem, and we expect imports in the last half to be down 4 percent. Nearly all import price inflation in Nigeria is due to dollar devaluation. Venezuela is also spending its way into a deeper deficit. Although enjoying relatively favorable import prices because dollar imports make up a large share of the total, an

OPEC Countries: Terms of Trade

Index: 1st Qtr 1974 = 100

	Oil Prices	Import Prices	Terms of Trade
1974			
1st Qtr	100.0	100.0	100.0
2nd Qtr	100.0	109.8	91.1
3rd Qtr	101.4	113.5	89.3
4th Qtr	108.2	117.7	91.9
1975			
1st Qtr	109.5	121.7	90.0
2nd Qtr	109.5	122.0	89.8
3rd Qtr	109.5	116.6	93.9
4th Qtr	119.3	117.0	102.0
1976			
1st Qtr	119.3	119.0	100.3
2nd Qtr	119.3	119.6	99.7
3rd Qtr	119.3	122.3	97.5
4th Qtr	119.3	123.8	96.4
1977			
1st Qtr	127.5	126.4	100.9
2nd Qtr	127.5	129.0	98.8
3rd Qtr	131.2	131.6	99.7
4th Qtr	131.2	135.5	96.8
1978			
1st Qtr	131.2	141.5	92.7
2nd Qtr	131.2	145.8	90.0
3rd Qtr	131.2	154.5 ¹	84.9 ¹
4th Qtr	131.2	156.3 ¹	83.9 ¹

¹ Estimated.

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increased volume of purchases means that Venezuela's import bill will be up 21 percent in 1978.

In Algeria, Ecuador, and Gabon, import spending in 1978 has been tightly constrained by growing debt service burdens and decreased oil revenues. In Algeria import expenditures will have fallen an estimated \$100 million in 1978, largely because of a continued shortage of development funds. Import spending is also falling in Ecuador; rising import prices will cause import volume to decline by 19 percent—the largest drop of any OPEC member. Ecuador will, however, be forced to implement even stricter import restraints if the costs of its imports continue spiraling.

OPEC Countries: Oil Exports

	Thousand b/d		
	1978		
	Jan-Sep	Oct-Dec	Jan-Dec ¹
Total	27,400	29,620	27,970
Algeria	1,010	1,010	1,040
Ecuador	140	160	150
Gabon	200	200	200
Indonesia	1,360	1,350	1,360
Iran	5,100	3,700	4,750
Iraq	2,190	2,680	2,310
Kuwait	2,040	2,280	2,100
Libya	1,910	2,190	1,980
Nigeria	1,730	2,040	1,810
Qatar	470	520	480
Saudi Arabia	7,590	9,500	8,070
United Arab Emirates	1,810	1,830	1,820
Venezuela	1,850	2,160	1,930

¹ Projected.

Oil exports cannot be increased significantly to raise revenue, and the heavy borrowing undertaken in 1977 proved politically unpopular and will not be repeated. Gabon's import volume will be down 14 percent in 1978, owing to both an austerity program and the nonrecurrence of imports of construction goods associated with the Organization of African Unity conference that Gabon hosted last year. In Gabon the declining value of the dollar and domestic inflation in supplier countries are affecting import prices about equally.

OPEC Economic Commission

The OPEC Economic Commission Board (ECB) met in Vienna during 14-19 November to review and discuss the economic factors pertaining to oil pricing.

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Normally, the primary function of the ECB is to make specific recommendations on crude oil price changes for consideration by the OPEC ministers at their next formal meeting. The ECB tends to use methodologies that substantially exaggerate OPEC's revenue losses from inflation and currency exchange movements. As a result, its findings have been discounted by many OPEC members, and its recommendations have not been followed in actual price decisions. Last week, the ECB used several different formulas in calculating OPEC's revenue losses at 29 percent to 57 percent since the January 1977 price increase. Saudi Arabia dissented from the conclusions, however, and no formal recommendations will be made to the oil ministers. (Confidential)

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Notes



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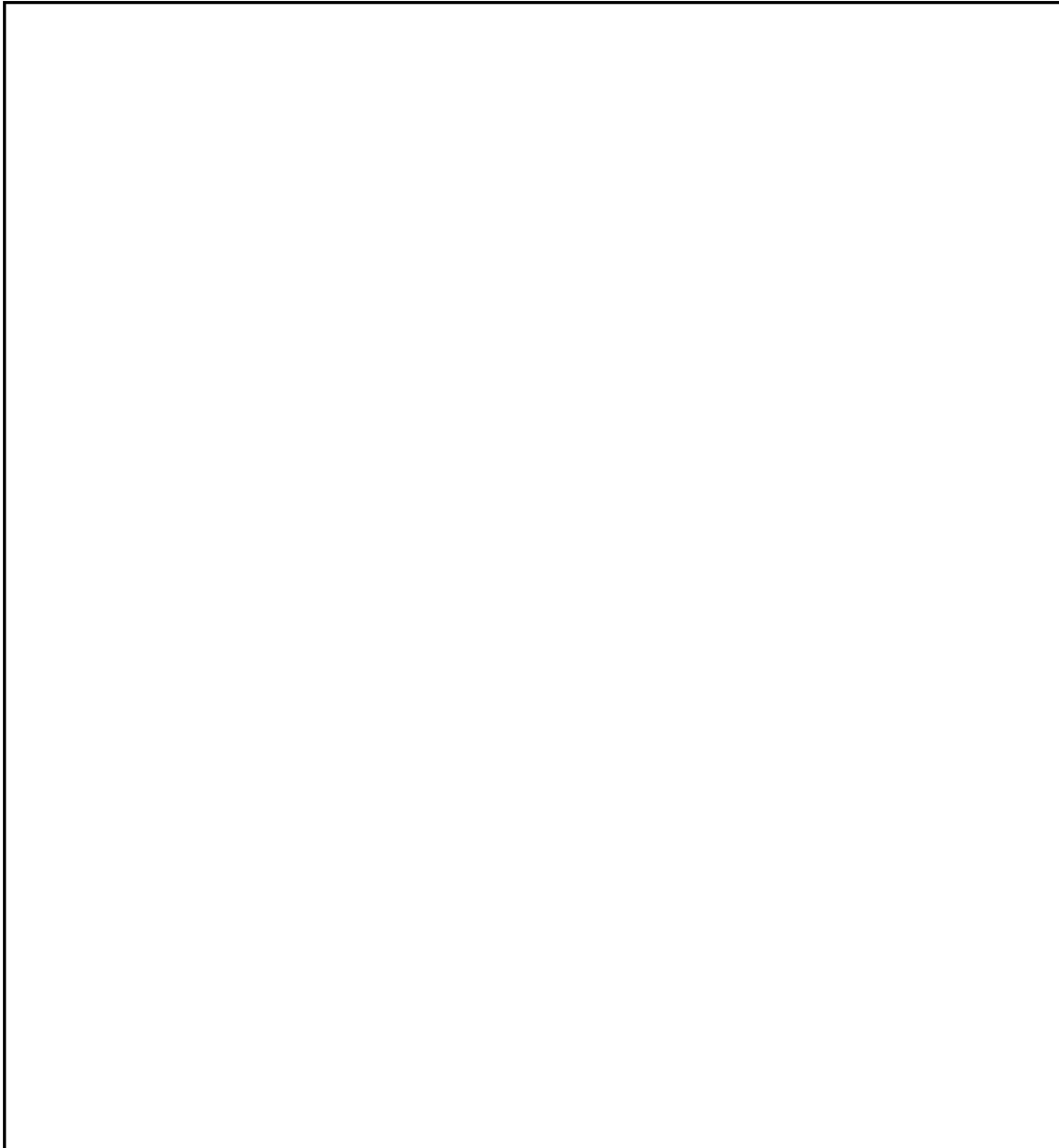
1 December 1978

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Soviet Officials Debate Reception of US Trade Representatives

As recently as last week, the Soviets were debating how warmly to receive US business executives and government officials who will attend trade meetings of the US-USSR Trade and Economic Council in Moscow next week. Nikolay Zinovyev, Chief of the Ministry of Foreign Trade's Administration for Trade with American

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Countries, opposed even holding the meeting. Zinovyev argued that Moscow should not send a positive signal to the United States without some initiative on the part of Washington to improve trade relations. Deputy Minister of Foreign Trade Vladimir Sushkov, on the other hand, reportedly is willing to take a forward step at this time. President Brezhnev's participation in the meetings was a particularly sticky point. Hardliners opposed to having Brezhnev participate want to show Soviet displeasure with US export controls on oil and gas equipment. Sushkov's more conciliatory attitude has so far prevailed: Brezhnev is scheduled to host a dinner for the Trade and Economic Council on 6 December. Sushkov, however, warned a US business executive involved in planning the meetings that Soviet trade officials attending the next meeting in October 1979 in Chicago will expect reciprocal treatment on the part of the United States. (Confidential Noform)

Publications of Interest *

**Western Europe: Debate Over Proposed European Monetary System
(ER 78-10749, November 1978, Secret Noform)**

This Intelligence Assessment explores political and economic motivations for the proposed West European exchange rate stabilization scheme. In addition to detailed country positions, it discusses the broader political aspects of the monetary initiative and the implications for economic policy.

**USSR: The Role of Compensation Agreements in Trade With the West
(ER 78-10660, November 1978, Secret Noform)**

This Intelligence Assessment examines the Soviet policy of financing trade with the West under agreements that call for payment for Western plant and equipment with products rather than hard currency. The report lists existing agreements, analyzes their impact on hard currency earnings, and discusses prospects for additional agreements.

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* Copies of these publications may be obtained by calling NFAC/PPG Registry and Dissemination Branch

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Assessment
Center**

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Economic Indicators Weekly Review

1 December 1978

*ER EI 78-048
1 December 1978*

Approved For Release 2002/05/07 : CIA-RDP80T00702A001000020001-7

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FOREWORD

1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

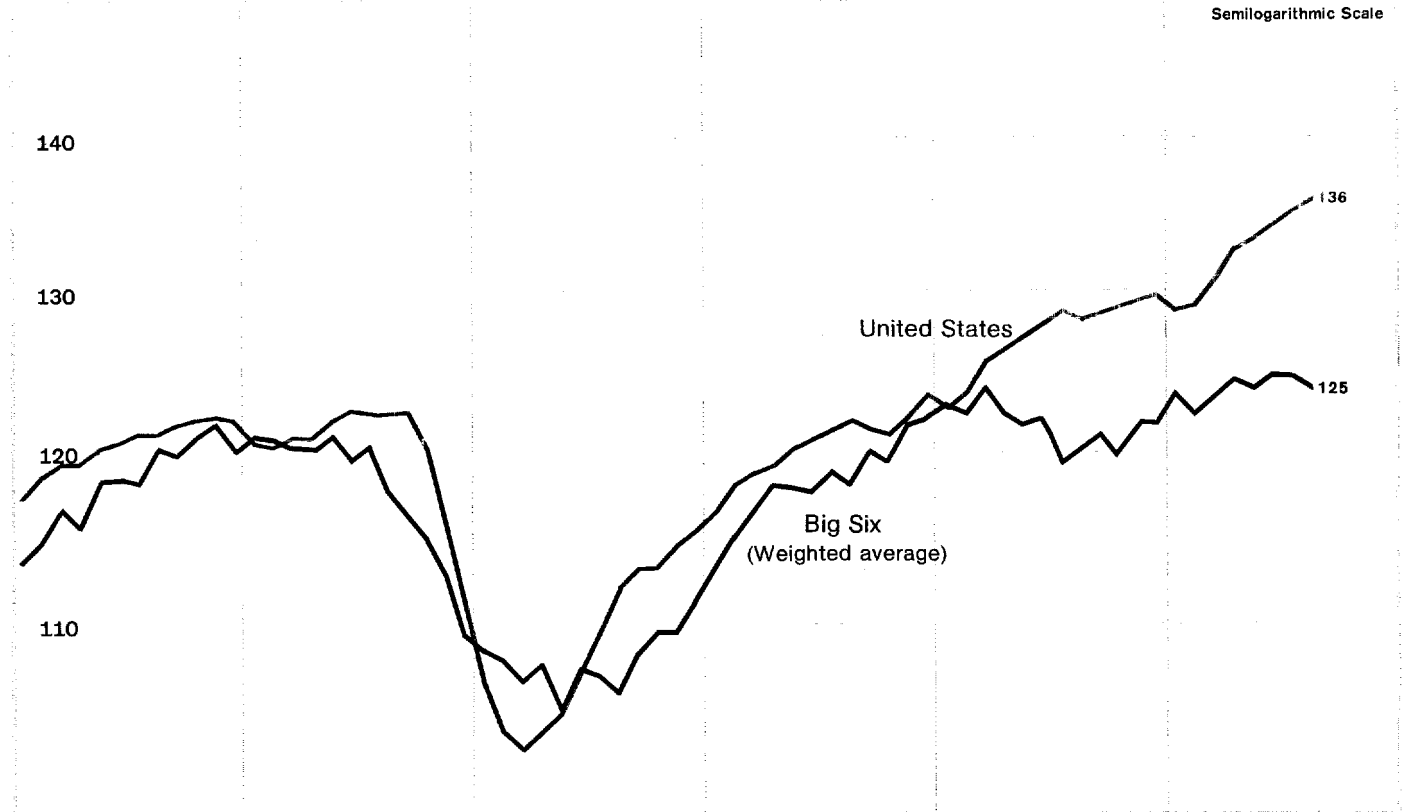
2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

BIG SIX FOREIGN COUNTRIES' COMPOSITE INDICATORS

Industrial Production

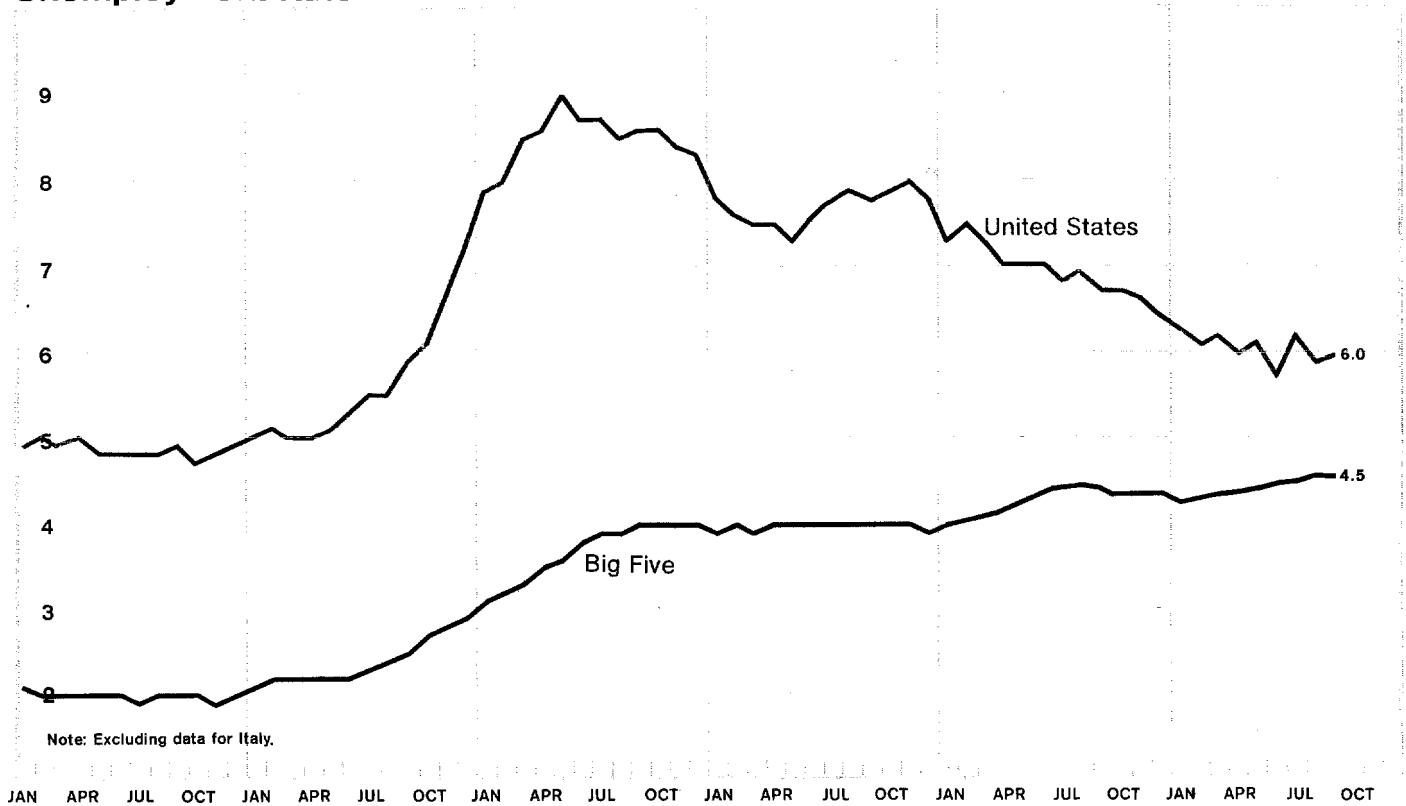
INDEX: 1970=100, seasonally adjusted

Semilogarithmic Scale



Unemployment Rate

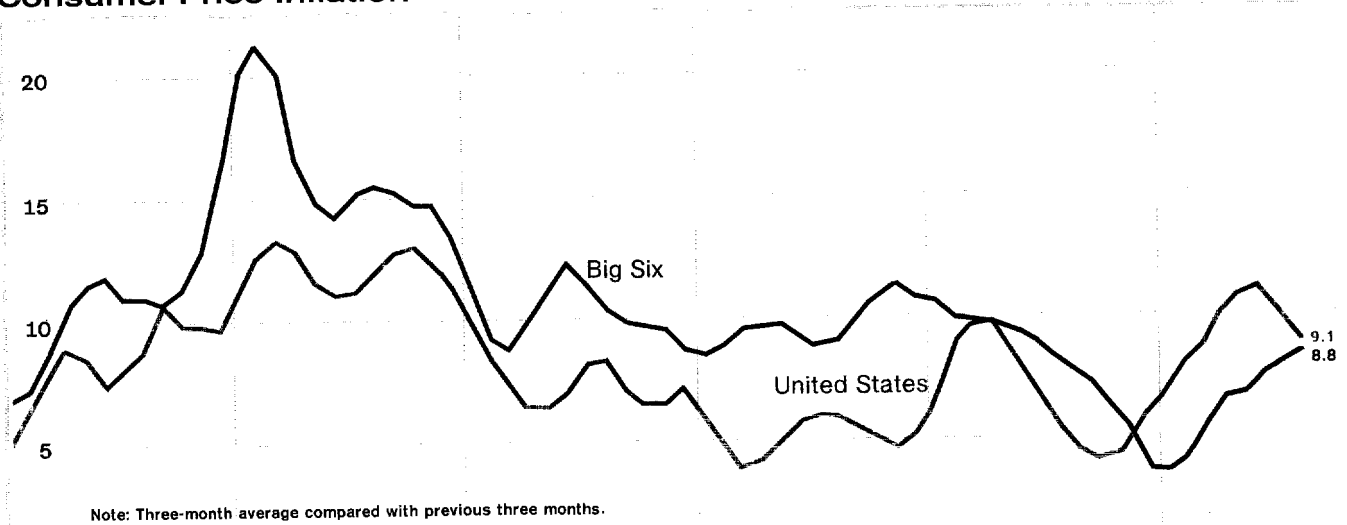
Percent



Note: Excluding data for Italy.

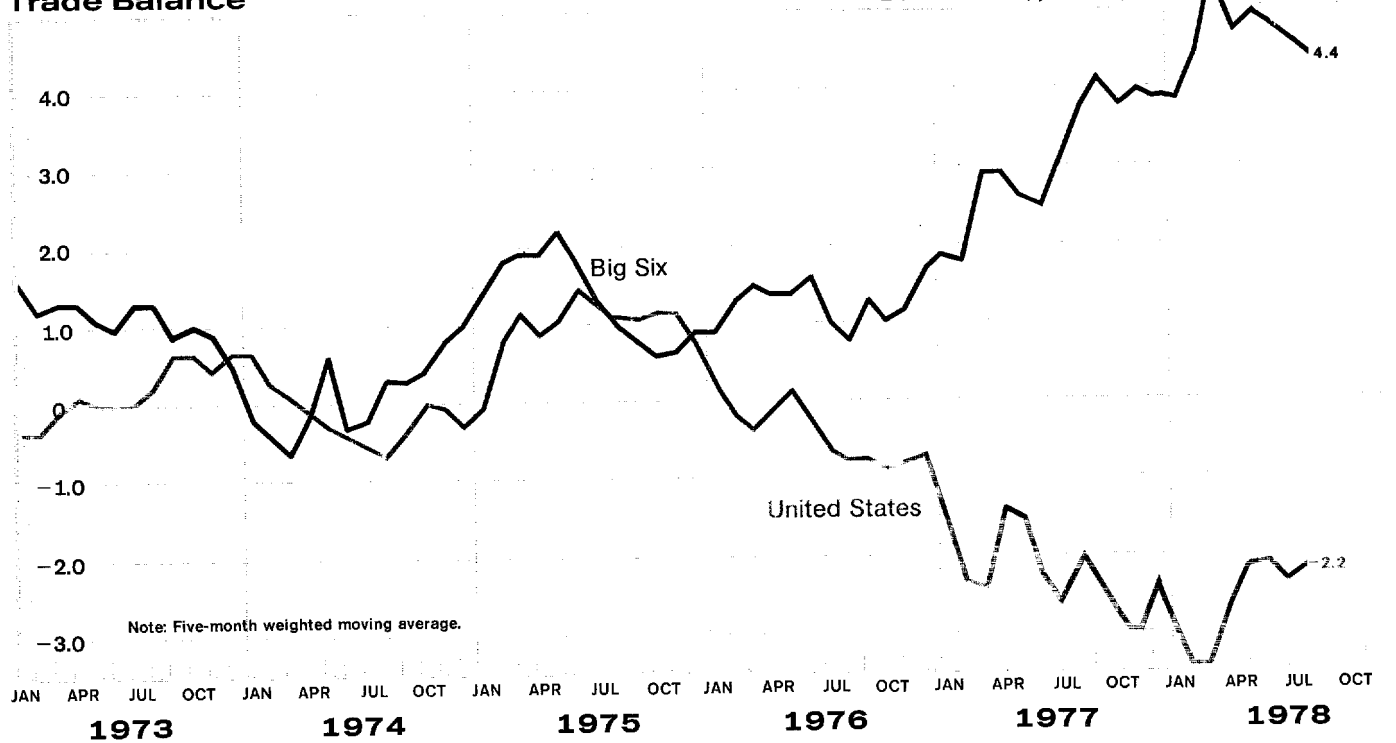
Consumer Price Inflation

Percent, seasonally adjusted, annual rate



Trade Balance

Billion US \$, f.o.b., seasonally adjusted



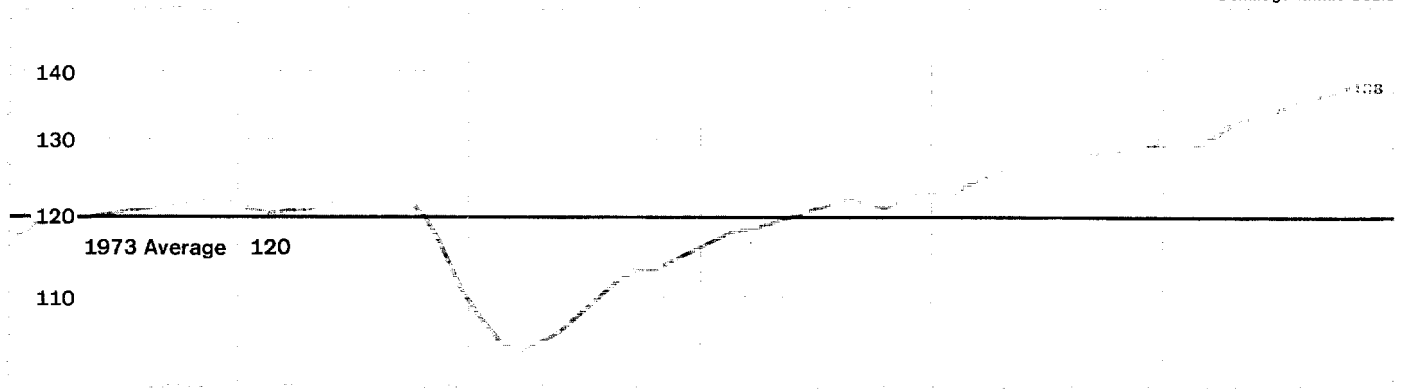
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970		
			1 Year Earlier	3 Months Earlier ²	
Industrial Production					
Big Six	AUG 78	-0.5	2.8	3.1	1.5
United States	AUG 78	0.6	3.9	6.4	9.7
Consumer Prices					
Big Six	SEP 78	0.3	9.2	6.3	8.8
United States	SEP 78	0.6	6.8	8.3	9.1

	LATEST MONTH	1 Year Earlier	3 Months Earlier	
Unemployment Rate				
Big Five	SEP 78	4.5	4.4	
United States	SEP 78	6.0	6.8	
			5.7	
Trade Balance				
	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)	
			1978	1977
Trade Balance				Change
Big Six	AUG 78	5,581	36,973	20,145
United States	AUG 78	-1,621	-20,976	-16,050
				-4,926

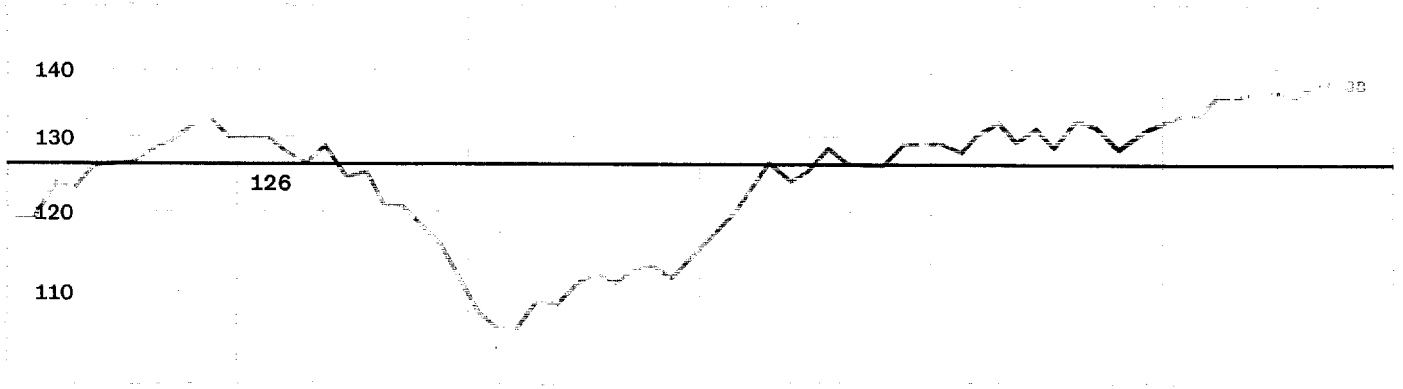
INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted

United States

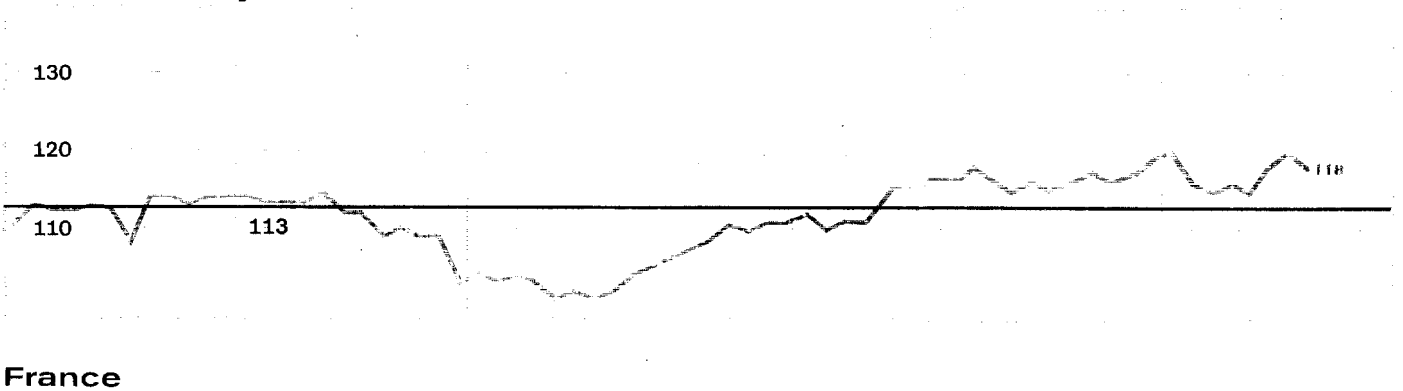
Semilogarithmic Scale



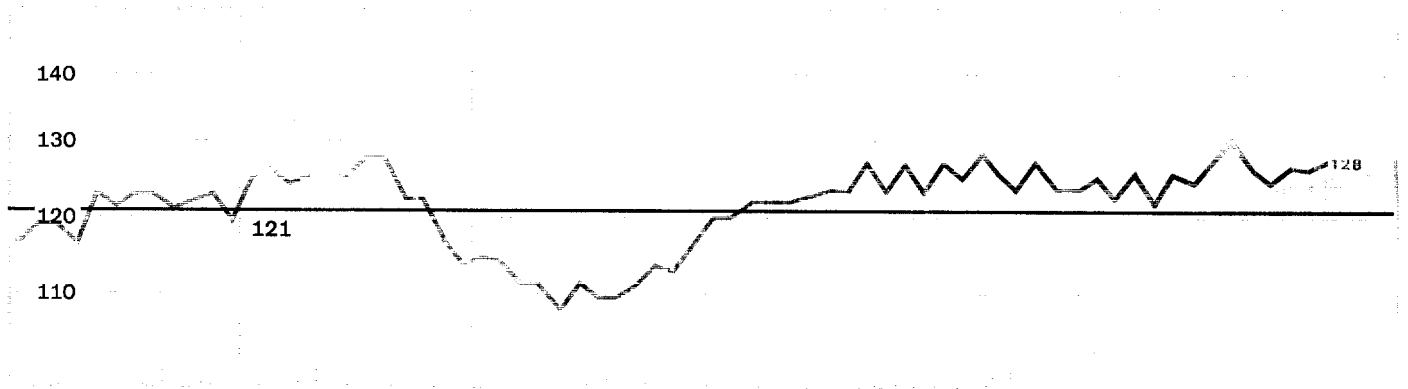
Japan



West Germany

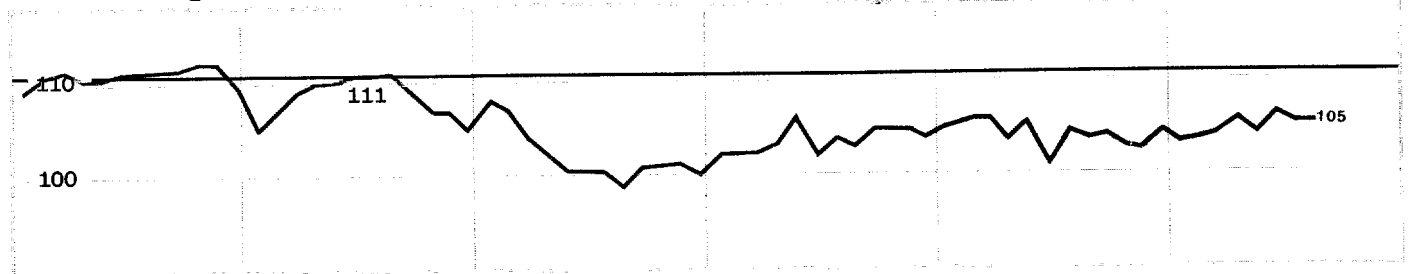


France

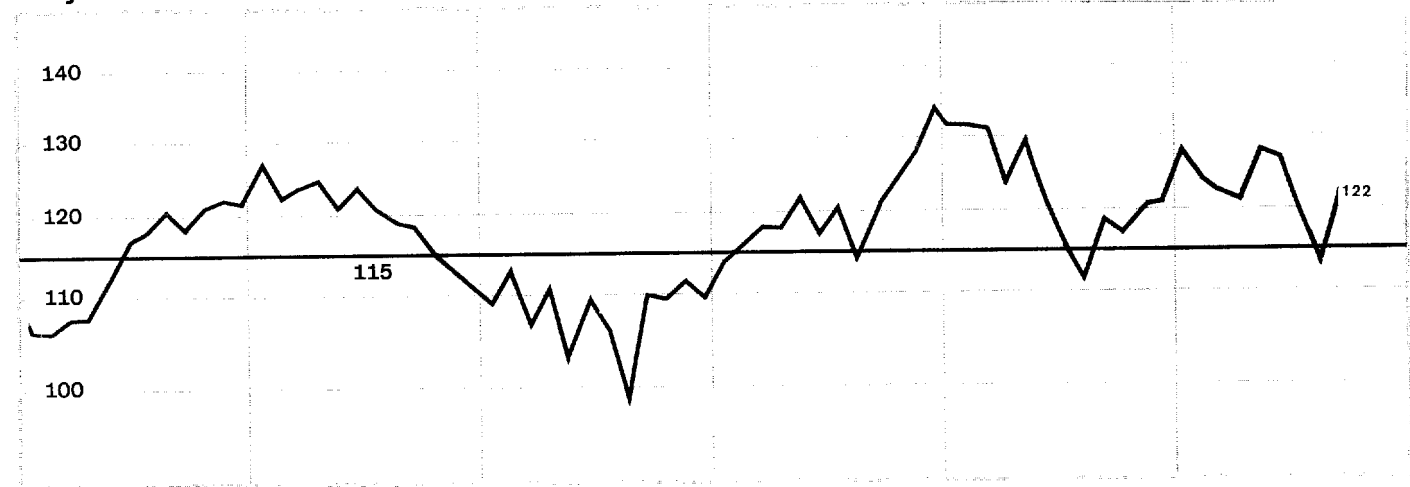


United Kingdom

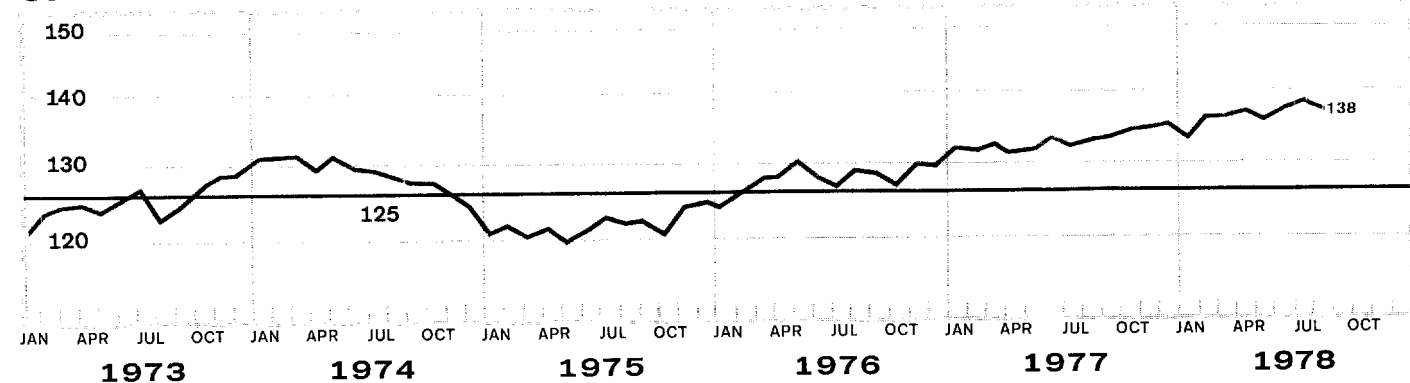
Semilogarithmic Scale



Italy



Canada

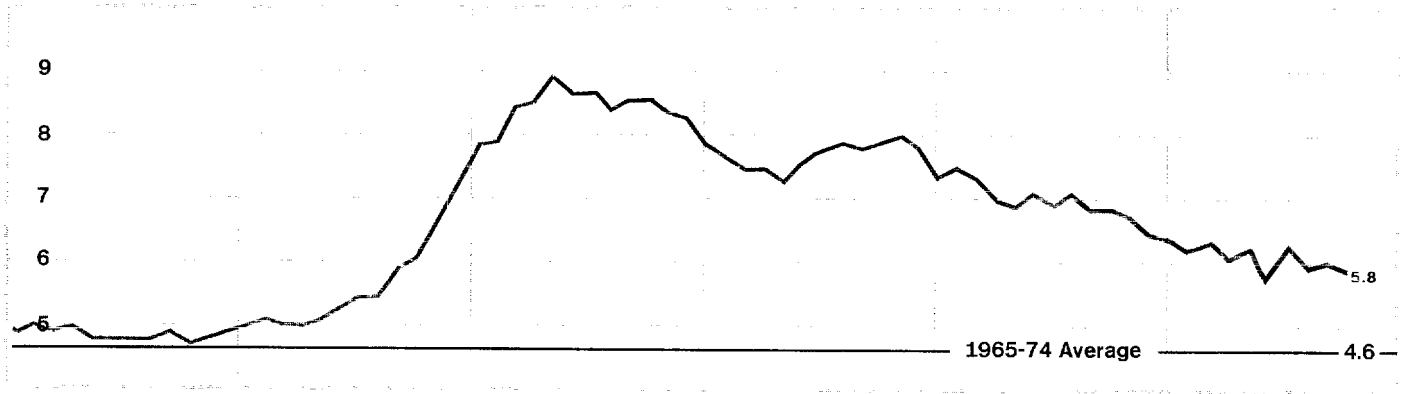


	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier ¹			1970	1 Year Earlier	3 Months Earlier ¹
United States	OCT 78	0.5	3.9	6.8	7.8	United Kingdom	AUG 78	0.9	0.6	1.2
Japan	SEP 78	0.6	4.0	6.8	2.6	Italy	SEP 78	6.8	2.4	1.9
West Germany	AUG 78	-1.7	2.1	1.7	12.1	Canada	AUG 78	-0.8	4.1	3.8
France	SEP 78	0.8	3.1	1.6	-1.0					

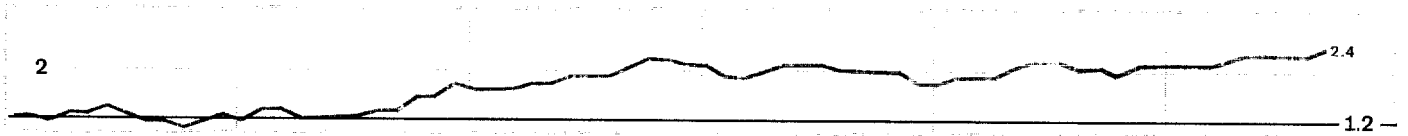
UNEMPLOYMENT RATE

PERCENT

United States



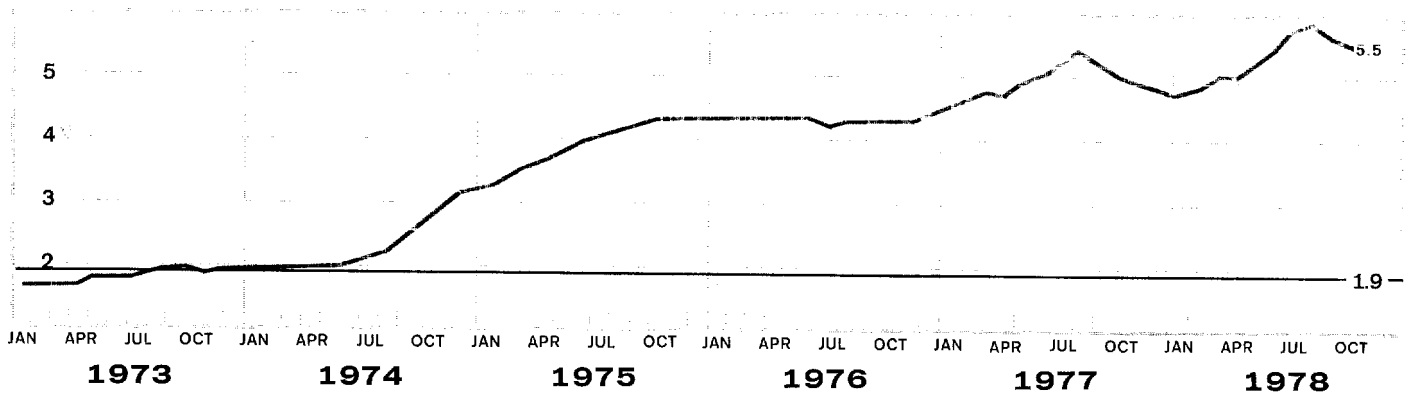
Japan



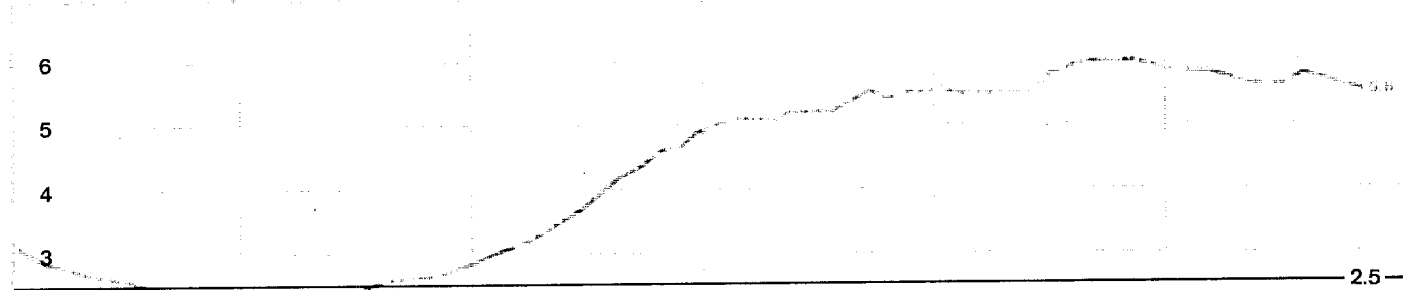
West Germany



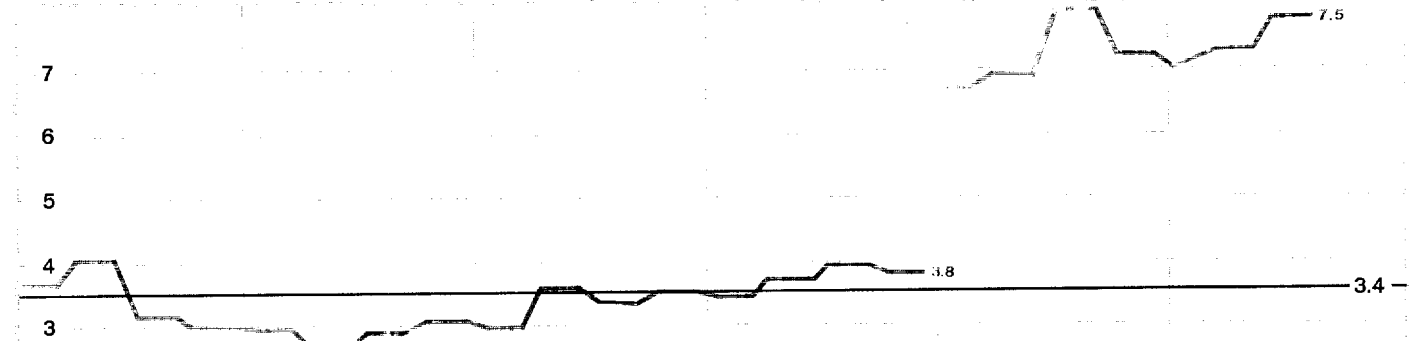
France



United Kingdom

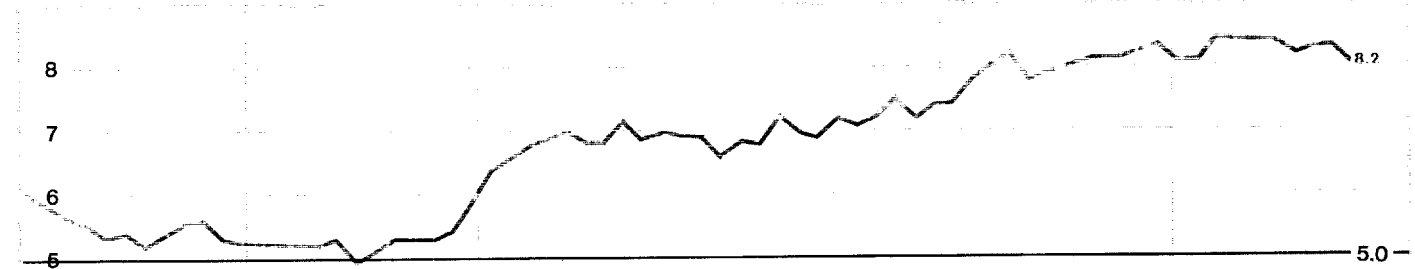


Italy (quarterly)



A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

Canada



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1973 1974 1975 1976 1977 1978

THOUSANDS OF PERSONS UNEMPLOYED

		LATEST MONTH	1 Year Earlier	3 Months Earlier		LATEST MONTH	1 Year Earlier	3 Months Earlier
United States	OCT 78	5,870	6,688	6,193	United Kingdom	NOV 78	1,339	1,430
Japan	SEP 78	1,300	1,120	1,310	Italy	78 III	1,658	1,692
West Germany	SEP 78	986	1,035	986	Canada	OCT 78	910	887
France	OCT 78	1,215	1,097	1,241				

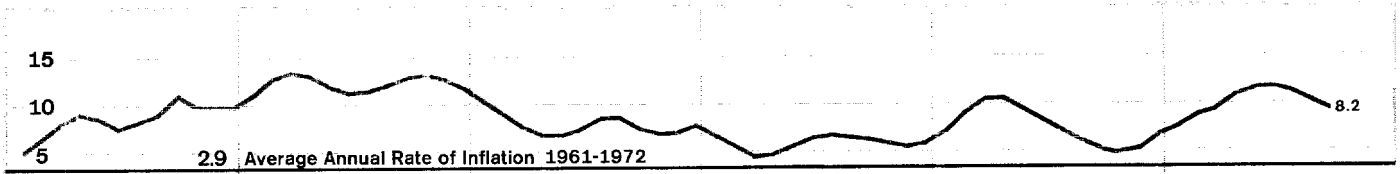
NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

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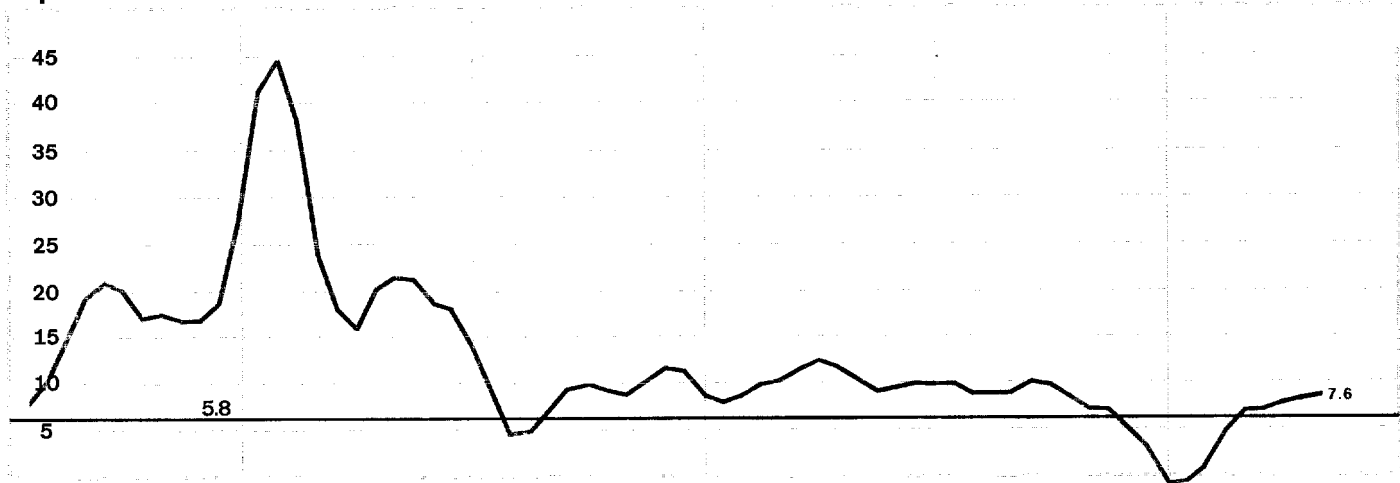
CONSUMER PRICE INFLATION

Percent, seasonally adjusted,
annual rate¹

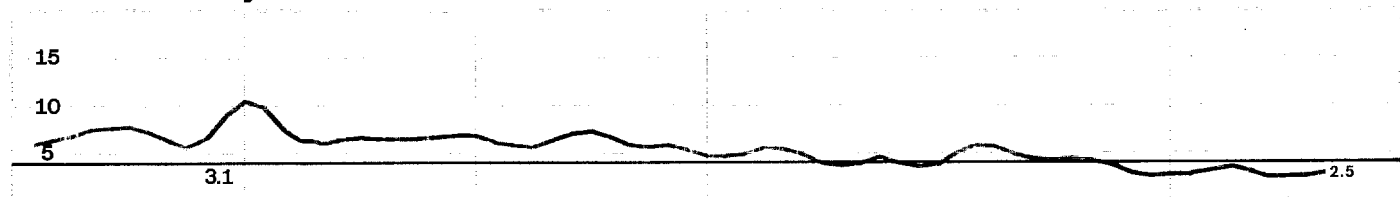
United States



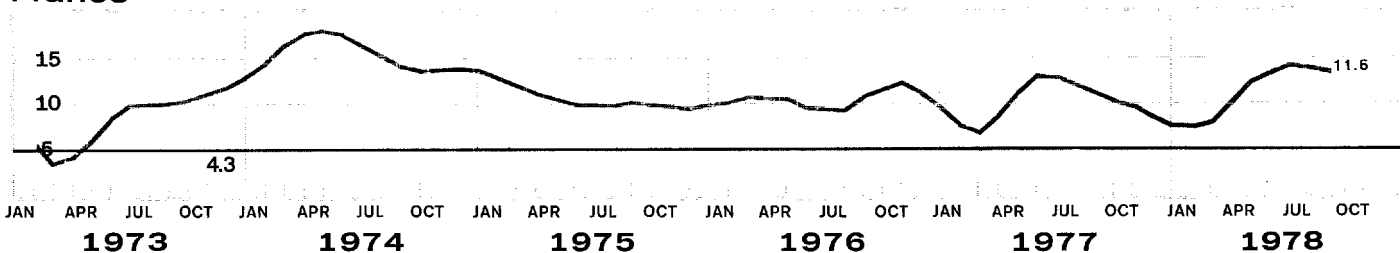
Japan



West Germany

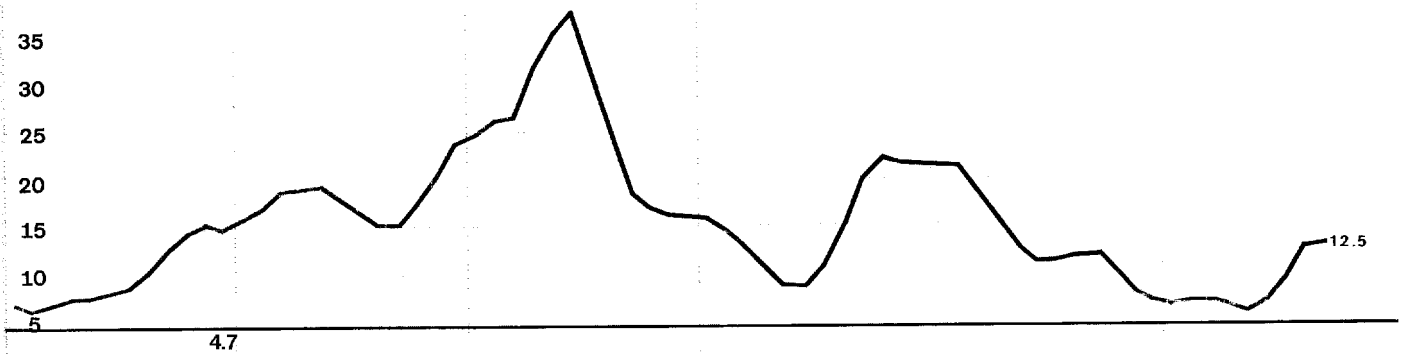


France

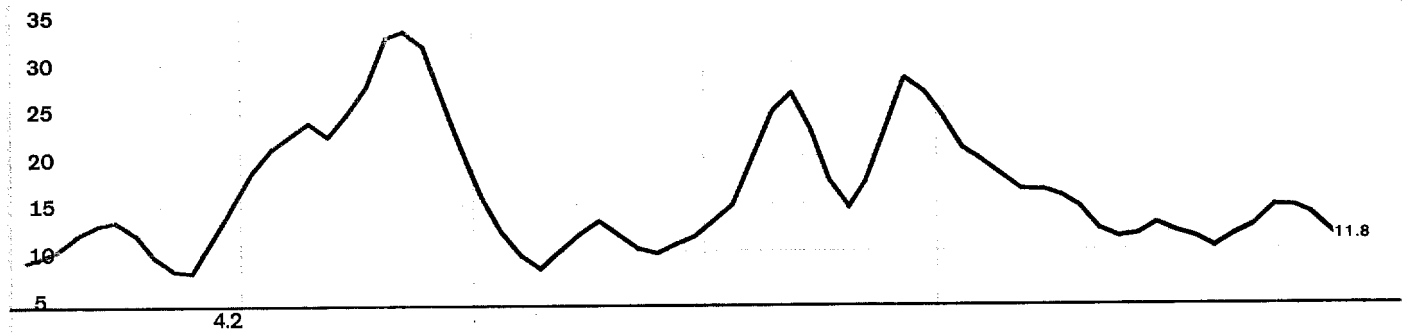


¹Three-month average compared with previous three months.

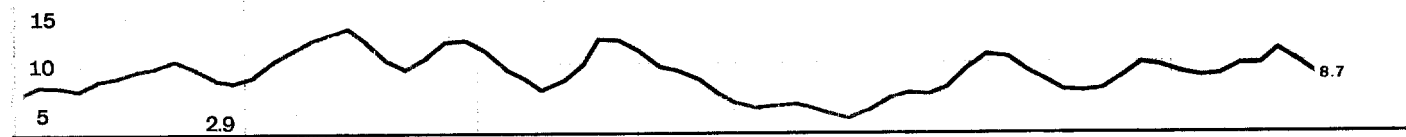
United Kingdom



Italy



Canada



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1973 1974 1975 1976 1977 1978

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE				LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier ²				1970	1 Year Earlier	3 Months Earlier ²
United States	OCT 78	0.7	6.8	8.9	8.2	United Kingdom	OCT 78	0.2	13.0	7.8	12.5
Japan	SEP 78	-0.2	9.7	3.7	7.6	Italy	OCT 78	0.9	13.1	12.3	11.8
West Germany	SEP 78	0	5.1	2.2	2.5	Canada	SEP 78	0.1	7.6	8.6	8.7
France	SEP 78	0.5	9.1	9.2	11.6						

²Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

GNP ¹

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Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			1970	1 Year Earlier	Previous Quarter
United States	78 III	0.8	3.2	3.8	3.4
Japan	78 II	1.1	5.4	5.3	4.4
West Germany	78 II	2.1	2.7	4.2	8.8
France	78 I	1.8	4.1	1.4	7.4
United Kingdom	78 I	1.7	1.8	2.3	7.2
Italy	78 I	2.0	2.8	-0.8	8.2
Canada	78 II	1.1	4.7	3.7	4.5

¹ Seasonally adjusted.

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier ²
United States	Sep 78	0.8	3.5	4.9	3.6
Japan	Jun 78	1.3	9.3	5.8	11.0
West Germany	Aug 78	0	2.7	2.5	6.6
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Oct 78	0	1.2	6.6	2.8
Italy	Jul 78	-7.0	2.9	3.0	28.3
Canada	Sep 78	6.3	4.6	7.3	6.3

¹ Seasonally adjusted.

² Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT ¹

Nonresidential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			1970	1 Year Earlier	Previous Quarter
United States	78 III	-0.1	3.0	7.3	-0.3
Japan	78 II	1.8	1.5	5.1	7.6
West Germany	78 II	-0.5	1.2	7.8	-2.0
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	78 I	2.8	1.8	11.3	11.6
Italy	78 I	2.3	1.1	-19.6	9.4
Canada	78 II	10.6	6.5	6.1	49.9

¹ Seasonally adjusted.

WAGES IN MANUFACTURING ¹

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier ²
United States	Jul 78	1.2	7.6	7.6	6.8
Japan	Jun 78	1.2	15.8	5.6	4.0
West Germany	78 II	1.7	8.8	4.2	7.1
France	77 IV	3.1	14.1	12.0	12.9
United Kingdom	Jun 78	0.1	16.3	20.5	84.0
Italy	Aug 78	4.0	20.2	14.7	15.6
Canada	Aug 78	0.9	10.7	6.8	6.5

¹ Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.

² Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

Representative rates		Latest Date	Percent Rate of Interest			
			1 Year Earlier	3 Months Earlier	1 Month Earlier	
United States	Commercial paper	Nov 22	10.21	6.52	7.93	9.09
Japan	Call money	Nov 24	4.00	4.63	4.63	4.13
West Germany	Interbank loans (3 months)	Nov 22	3.78	4.06	3.65	3.82
France	Call money	Nov 24	6.63	9.00	7.00	7.00
United Kingdom	Sterling interbank loans (3 months)	Nov 22	12.29	4.96	9.27	10.71
Canada	Finance paper	Nov 22	10.36	7.33	8.90	9.92
Eurodollars	Three-month deposits	Nov 22	11.28	7.01	8.61	10.31

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EXPORT PRICES

US \$

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	1.3	9.7	11.0	19.5
Japan	Sep 78	-1.0	11.7	31.3	12.8
West Germany	Aug 78	1.7	11.7	14.3	23.3
France	Jun 78	2.2	11.5	13.6	7.8
United Kingdom	Oct 78	2.8	12.5	22.2	36.3
Italy	Aug 78	2.6	11.4	10.9	28.2
Canada	Aug 78	4.1	8.7	1.4	19.2

EXPORT PRICES

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	1.3	9.7	11.0	19.5
Japan	Sep 78	-0.2	3.3	-6.6	-30.5
West Germany	Aug 78	-1.2	3.7	-1.5	-0.3
France	Jun 78	0.6	8.8	5.3	-2.8
United Kingdom	Oct 78	0.3	14.9	7.7	8.2
Italy	Aug 78	2.6	15.4	5.2	9.5
Canada	Aug 78	5.6	9.8	7.6	28.7

IMPORT PRICES

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	0.6	12.7	7.9	3.3
Japan	Sep 78	-0.4	5.0	-23.7	-37.8
West Germany	Aug 78	0.4	3.4	-3.4	7.6
France	Jun 78	-0.6	9.1	0.2	-9.1
United Kingdom	Oct 78	0.5	17.0	4.1	5.2
Italy	Aug 78	0.8	18.4	1.8	1.3
Canada	Aug 78	1.7	9.8	10.0	16.1

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		End of	Billion US \$	1 Year Earlier	3 Months Earlier
United States	Sep 78		18.8	14.5	19.0
Japan	Aug 78		29.2	4.1	17.8
West Germany	Sep 78		44.7	8.8	34.5
France	Apr 78		10.6	4.4	10.0
United Kingdom	Sep 78		17.6	2.8	17.3
Italy	Sep 78		14.1	4.7	10.5
Canada	Oct 78		5.1	9.1	4.2

CURRENT ACCOUNT BALANCE ¹

	Latest Period	Million US \$	Cumulative (Million US \$)		
			1978	1977	Change
United States ²	78 I	-6,954	-6,954	-4,158	-2,796
Japan	Sep 78	1,900	13,982	6,442	7,540
West Germany	Aug 78	10	2,725	788	1,937
France	78 I	-84	-84	-1,628	1,543
United Kingdom	78 I	-803	-803	-896	94
Italy	78 I	288	288	-1,025	1,313
Canada	78 II	-1,201	-2,381	-2,658	277

¹ Converted to US dollars at the current market rates of exchange.

² Seasonally adjusted.

BASIC BALANCE ¹

Current and Long-Term Capital Transactions

		Cumulative (Million US \$)			
	Latest				
	Period	Million US \$	1978	1977	Change
United States		No longer published ²			
Japan	Sep 78	600	6,746	4,390	2,356
West Germany	Aug 78	-75	1,730	-3,308	5,038
France	78 I	-863	-863	-1,889	1,025
United Kingdom	78 I	-326	-326	543	-869
Italy	77 III	2,427	N.A.	N.A.	N.A.
Canada	78 II	883	327	-557	884

¹ Converted to US dollars at the current market rates of exchange.

² As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES

Spot Rate

As of 24 Nov 78

	US \$ Per Unit	Percent Change from			
		19 Mar 73	1 Year Earlier	3 Months Earlier	17 Nov 78
Japan (yen)	0.0052	35.01	25.48	-1.36	-0.54
West Germany (Deutsche mark)	0.5195	46.13	16.44	3.07	-0.26
France (franc)	0.2265	2.07	9.89	-1.59	-0.28
United Kingdom (pound sterling)	1.9384	-21.60	6.27	-0.54	0.49
Italy (lira)	0.0012	-33.08	3.42	-1.75	0
Canada (dollar)	0.8500	-15.28	-5.72	-2.29	-0.25

TRADE-WEIGHTED EXCHANGE RATES ¹

As of 24 Nov 78

	Percent Change from			
	19 Mar 73	1 Year Earlier	3 Months Earlier	17 Nov 78
United States	-2.16	-6.59	0.88	0.29
Japan	38.96	22.73	-1.11	-0.41
West Germany	34.55	5.17	2.81	0.06
France	-11.05	-2.04	-2.74	-0.06
United Kingdom	-29.40	-2.95	-1.05	0.87
Italy	-43.55	-7.34	-2.37	0.28
Canada	-16.47	-8.27	-2.24	-0.19

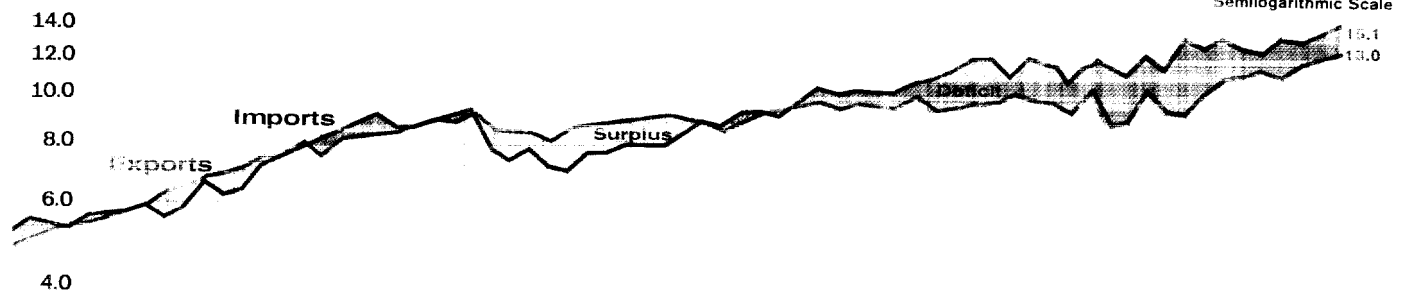
¹ Weighting is based on each listed country's trade with 16 other industrialized countries to which the major currencies.

Developed Countries: Direction of Trade ¹						
Billion US \$						
Exports to (f.o.b.)						
	World	Big Seven	Other OECD	OPEC	Com- munist	Other
UNITED STATES						
1975	107.59	46.93	16.25	10.77	3.37	30.27
1976	115.01	51.30	17.67	12.57	3.64	29.82
1977	120.17	53.92	18.54	14.02	2.72	30.97
1978						
1st Qtr	30.96	13.65	4.60	3.76	1.00	7.95
2d Qtr	37.05	16.14	5.25	4.43	1.44	9.79
Jul	10.94	4.51	1.51	1.38	0.40	3.14
Aug	11.61	4.95	1.65	1.32	0.37	3.33
JAPAN						
1975	55.73	16.56	6.07	8.42	5.17	19.52
1976	67.32	22.61	8.59	9.27	4.94	21.91
1977	81.12	28.03	9.72	12.03	5.33	26.01
1978						
1st Qtr	22.11	7.79	2.43	3.35	1.32	7.22
2d Qtr	24.07	8.60	2.44	3.55	1.74	7.74
Jul	8.58	2.99	1.02	1.33	0.51	2.73
Aug	8.18	2.94	0.86	1.19	0.58	2.60
WEST GERMANY						
1975	90.11	28.33	36.44	6.78	7.21	11.33
1976	101.93	33.44	41.86	8.25	7.02	11.36
1977	118.01	39.00	48.01	10.78	7.30	12.92
1978						
1st Qtr	32.45	11.17	13.05	2.76	1.97	3.49
2d Qtr	34.69	11.94	13.71	3.01	2.26	3.77
Jul	10.42	3.64	3.93	1.01	0.65	1.18
Aug	10.99	3.38	4.57	1.01	0.71	1.32
FRANCE						
1975	53.03	20.01	15.50	4.90	3.13	9.50
1976	57.05	22.49	16.15	5.08	3.23	10.10
1977	64.86	25.90	18.18	5.96	2.99	11.82
1978						
1st Qtr	18.49	7.66	5.07	1.57	0.66	3.53
2d Qtr	20.36	8.31	5.60	1.70	0.84	3.91
Jul	6.66	2.78	1.72	0.59	0.27	1.29
Aug	4.86	1.92	1.25	0.46	0.24	1.00
UNITED KINGDOM						
1975	44.46	12.54	16.59	4.55	1.56	9.21
1976	46.56	14.03	17.53	5.13	1.39	8.48
1977	58.04	17.29	22.20	6.77	1.63	10.14
1978						
1st Qtr	16.86	5.09	6.27	2.03	0.55	2.92
2d Qtr	17.60	5.38	6.59	2.20	0.51	2.92
Jul	5.80	1.84	2.10	0.71	0.16	1.00
Aug	5.77	1.73	2.18	0.69	0.15	1.02
ITALY						
1975	34.84	15.61	7.86	3.72	2.46	5.19
1976	37.25	17.58	8.73	4.27	2.18	4.48
1977	45.04	20.91	10.20	5.84	2.46	5.64
1978						
1st Qtr	10.80	5.22	2.40	1.37	0.48	1.33
2d Qtr	13.65	6.51	2.92	1.81	0.66	1.75
Jul	4.46	2.17	0.93	0.57	0.22	0.57
CANADA						
1975	34.07	26.30	1.72	0.71	1.20	4.14
1976	40.52	32.01	2.03	0.81	1.25	4.40
1977	43.08	34.83	2.20	1.17	1.08	3.80
1978						
1st Qtr	10.87	8.88	0.45	0.23	0.22	1.10
2d Qtr	12.66	10.32	0.56	0.23	0.36	1.19
Jul	3.53	2.81	0.13	0.08	0.15	0.36

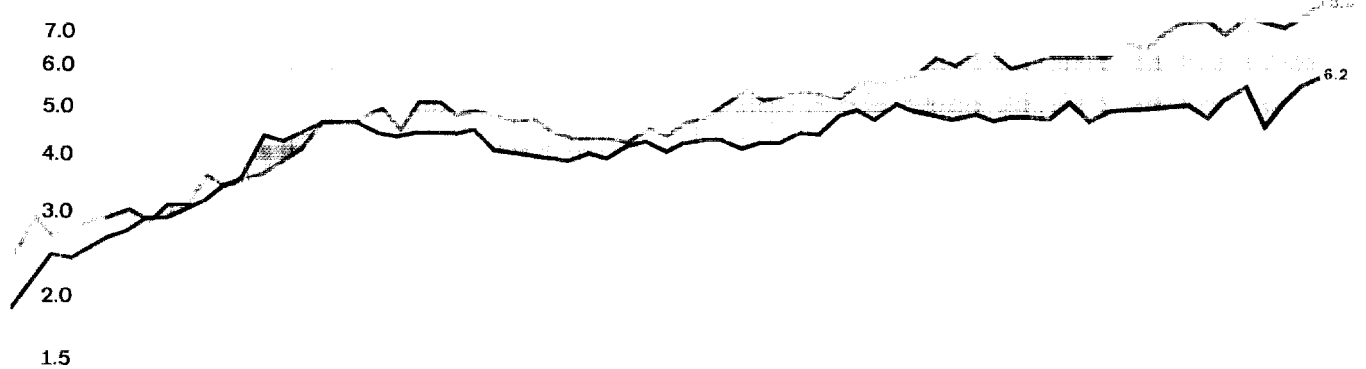
Developed Countries: Direction of Trade ¹						
	Billion US \$					
	Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Communist	Other
UNITED STATES						
1975	103.42	49.81	8.83	18.70	0.98	25.09
1976	129.57	60.39	9.75	27.17	1.16	31.10
1977	156.71	70.48	11.09	35.45	1.23	38.47
1978						
1st Qtr	43.14	20.39	3.51	8.15	0.47	10.62
2d Qtr	45.99	22.53	3.68	7.90	0.48	11.40
Jul	15.67	7.56	1.29	2.62	0.14	4.04
Aug	14.96	6.92	1.11	2.91	0.19	3.83
JAPAN						
1975	57.85	16.93	6.08	19.40	3.36	12.07
1976	64.89	17.58	7.78	21.88	2.91	14.73
1977	71.32	18.88	7.92	24.33	3.41	16.79
1978						
1st Qtr	18.32	5.04	2.06	6.46	0.86	3.89
2d Qtr	19.39	5.51	2.30	5.95	1.01	4.63
Jul	6.47	1.95	0.80	1.82	0.30	1.60
Aug	6.92	2.17	0.81	1.92	0.32	1.70
WEST GERMANY						
1975	74.92	27.09	27.78	8.24	3.51	8.30
1976	88.14	31.28	32.64	9.73	4.38	10.11
1977	101.42	36.39	37.37	10.12	4.92	12.61
1978						
1st Qtr	28.24	10.11	10.88	2.32	1.39	3.55
2d Qtr	29.75	11.10	11.43	2.24	1.40	3.58
Jul	9.57	3.60	3.48	0.77	0.54	1.18
Aug	9.43	3.41	3.51	0.82	0.50	1.19
FRANCE						
1975	53.99	23.04	14.33	9.43	1.94	5.24
1976	64.38	27.81	16.93	11.36	2.24	6.04
1977	70.49	30.28	18.24	11.81	2.46	7.69
1978						
1st Qtr	19.76	8.58	5.40	3.05	0.64	2.09
2d Qtr	20.42	9.16	5.62	2.77	0.68	2.19
Jul	6.31	2.88	1.65	0.94	0.23	0.61
Aug	5.56	2.49	1.29	0.95	0.21	0.63
UNITED KINGDOM						
1975	53.93	18.47	18.52	6.91	1.68	8.36
1976	56.20	19.65	18.81	7.29	2.08	8.36
1977	64.06	24.03	21.38	6.32	2.42	9.91
1978						
1st Qtr	18.87	7.44	6.68	1.80	0.55	2.40
2d Qtr	19.31	7.66	7.27	1.30	0.59	2.48
Jul	6.42	2.58	2.17	0.58	0.21	0.88
Aug	6.30	2.48	2.08	0.60	0.23	0.91
ITALY						
1975	38.39	17.32	6.75	7.85	2.09	4.39
1976	43.43	19.35	8.05	8.12	2.65	5.26
1977	47.57	20.80	8.66	9.03	2.80	6.28
1978						
1st Qtr	11.26	5.03	2.10	2.18	0.51	1.44
2d Qtr	13.38	6.14	2.58	2.15	0.73	1.76
Jul	4.90	2.18	0.93	0.82	0.37	0.61
CANADA						
1975	38.67	29.78	1.70	3.43	0.32	3.43
1976	43.04	33.55	1.82	3.48	0.38	3.81
1977	44.91	35.75	1.79	3.06	0.34	3.98
1978						
1st Qtr	10.80	8.60	0.44	0.77	0.08	0.91
2d Qtr	13.52	11.08	0.50	0.71	0.09	1.13
Jul	3.88	3.05	0.17	0.26	0.04	0.35

FOREIGN TRADE BILLION US \$, f.o.b., seasonally adjusted

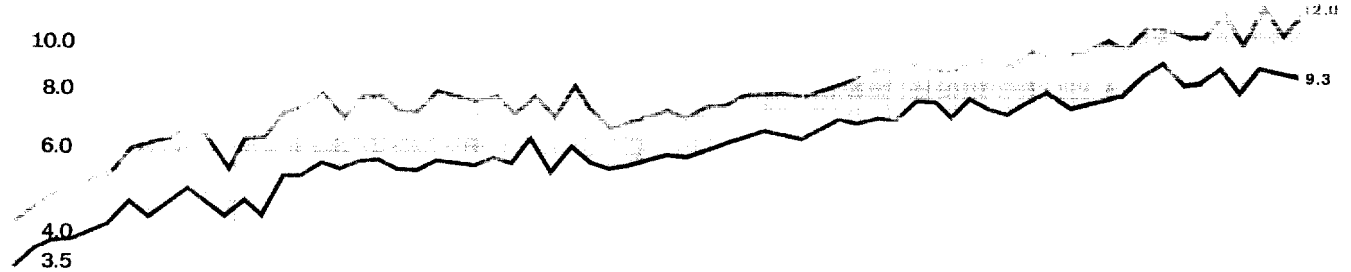
United States



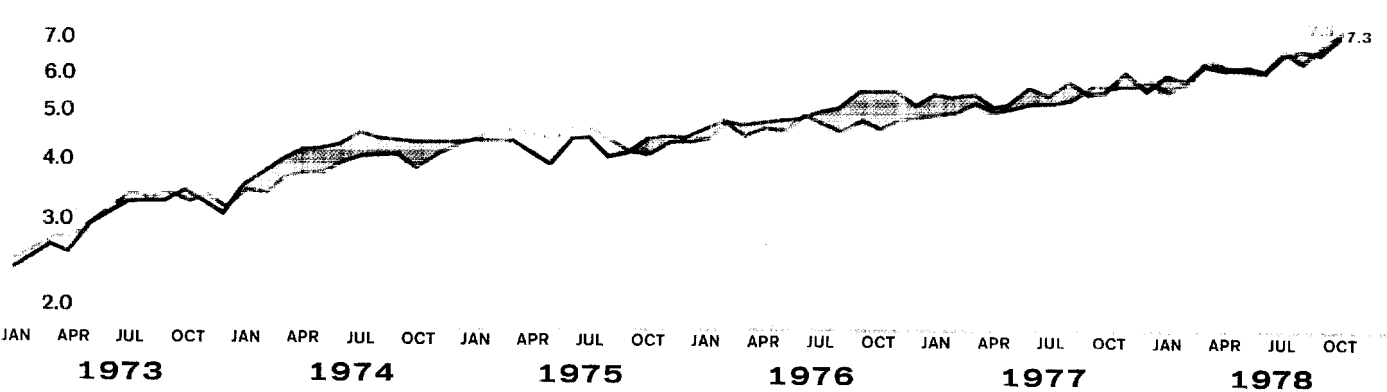
Japan



West Germany

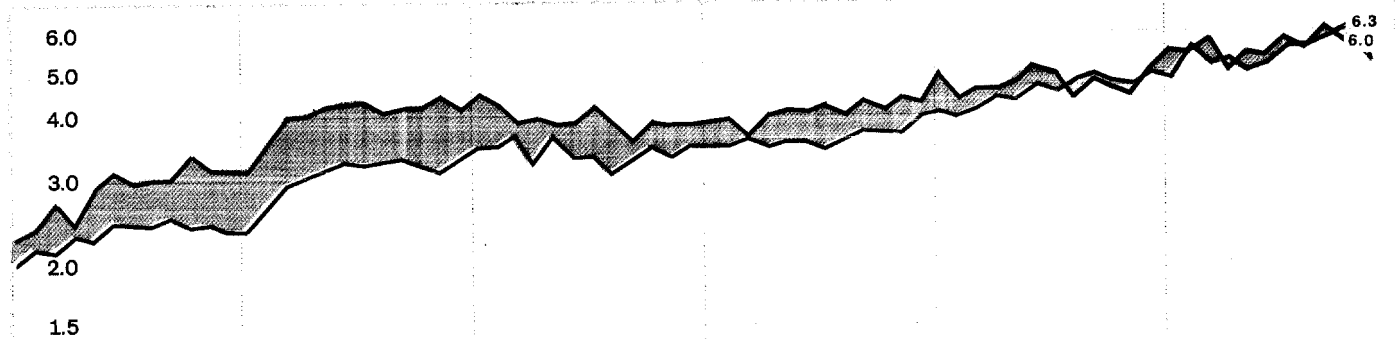


France

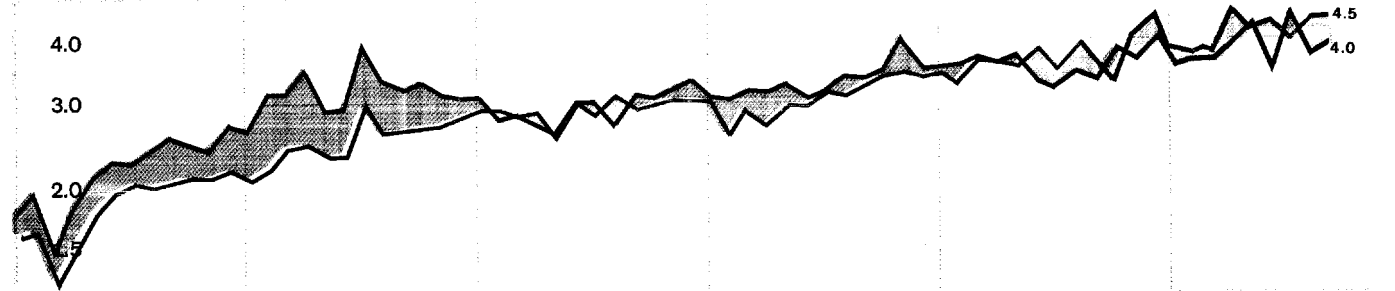


United Kingdom

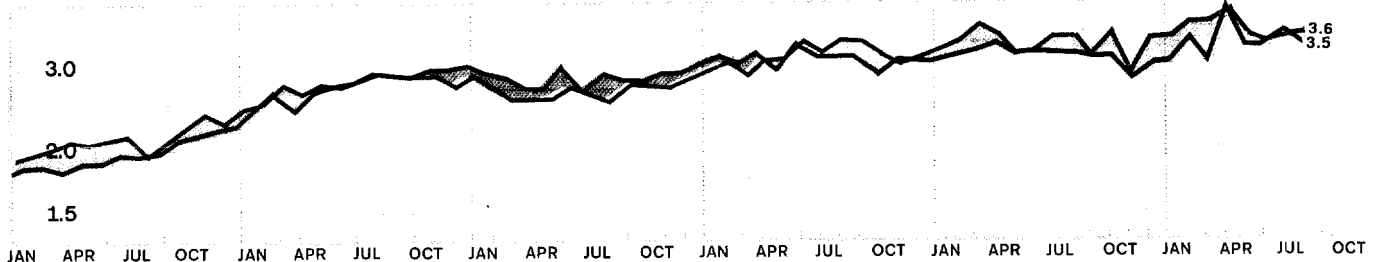
Semilogarithmic Scale



Italy



Canada



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT

1973

1974

1975

1976

1977

1978

	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)		
			1978	1977	CHANGE
United States	SEP 78	13,011	117,064	100,727	16.2%
		15,138	141,859	121,889	16.4%
	Balance	-1,691	-22,667	-17,953	-4,714
Japan	SEP 78	8,618	71,117	58,515	21.5%
		6,216	50,210	46,130	8.8%
	Balance	2,402	20,907	12,385	8,522
West Germany	AUG 78	11,974	90,233	76,223	18.4%
		9,258	74,131	62,846	18.0%
	Balance	2,715	16,102	13,378	2,725
France	SEP 78	7,483	65,411	53,441	22.4%
		7,311	64,823	55,628	16.5%
	Balance	299	417	-2,354	2,771

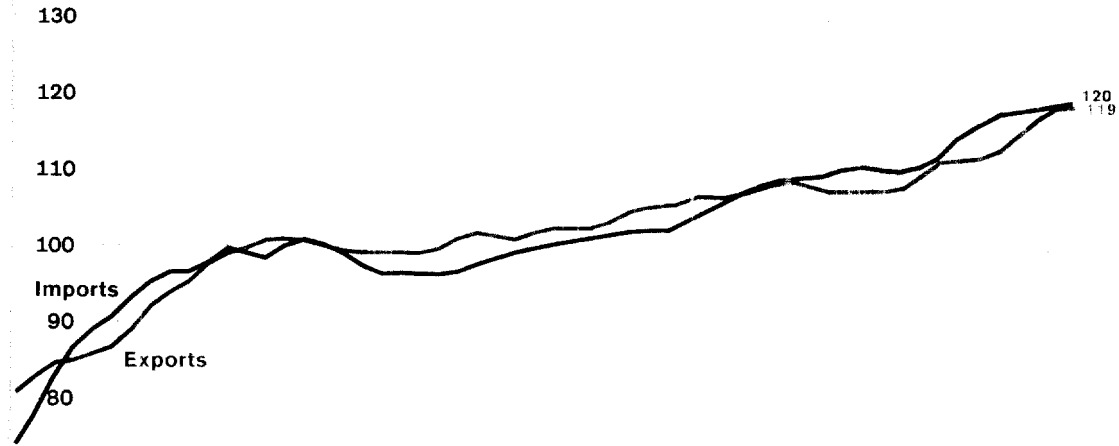
	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)		
			1978	1977	CHANGE
United Kingdom	OCT 78	6,264	56,265	46,177	21.8%
		6,025	57,957	49,019	18.2%
	Balance	239	-1,692	-2,842	1,149
Italy	SEP 78	4,509	37,843	32,756	15.5%
		4,005	35,250	32,347	9.0%
	Balance	504	2,593	409	2,184
Canada	AUG 78	3,640	29,739	27,962	6.4%
		3,478	28,071	26,672	5.2%
	Balance	162	1,668	1,289	379

577802 11-78

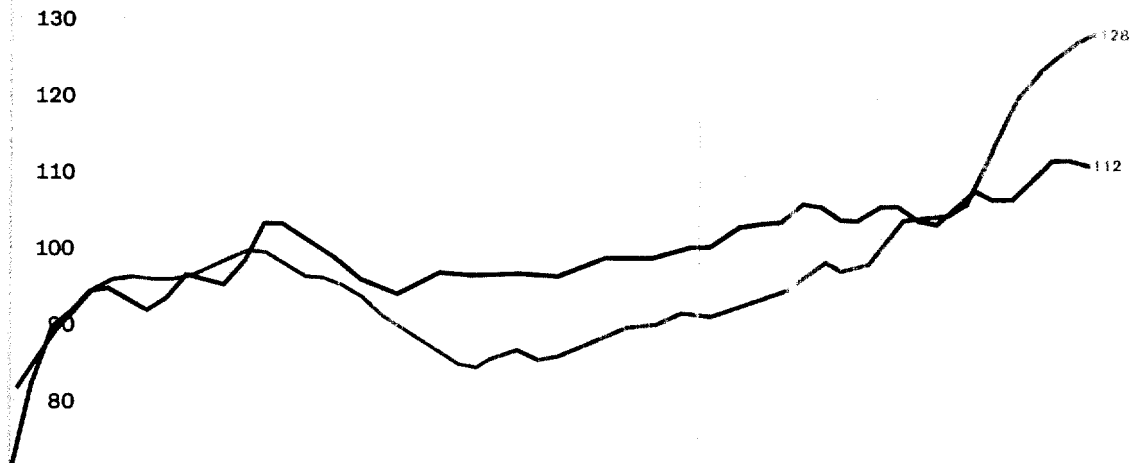
FOREIGN TRADE PRICES IN US \$¹

United States

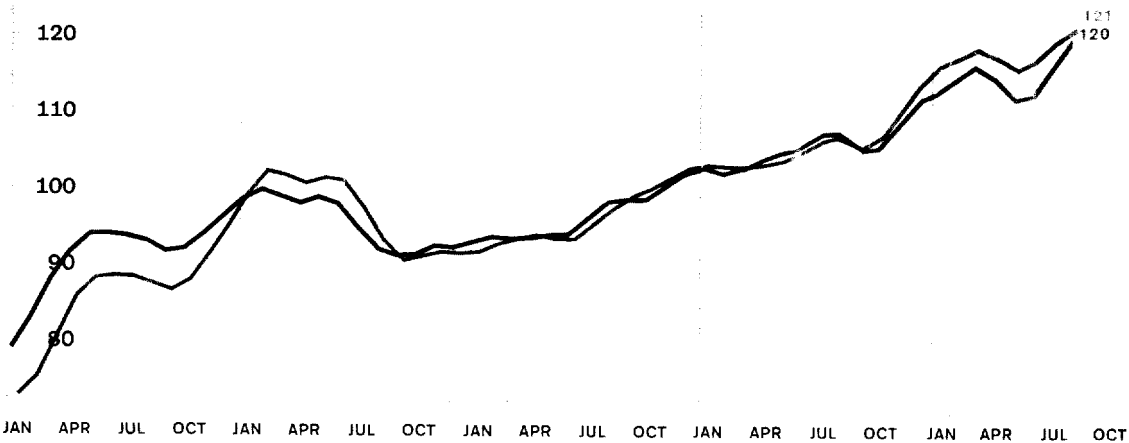
INDEX: JAN 1975 = 100



Japan

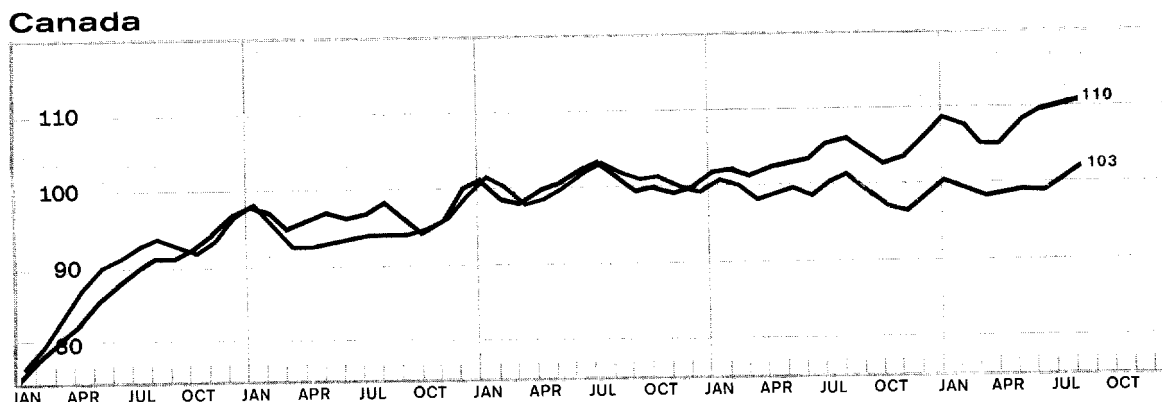
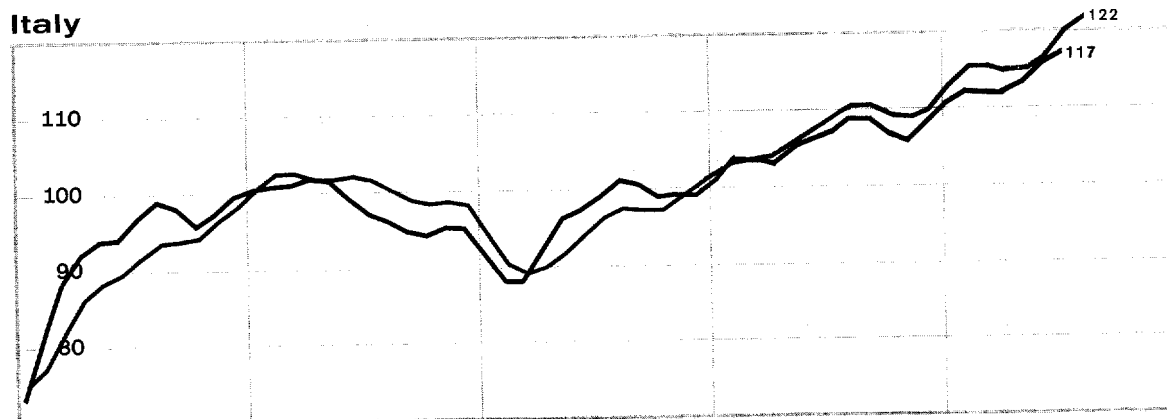
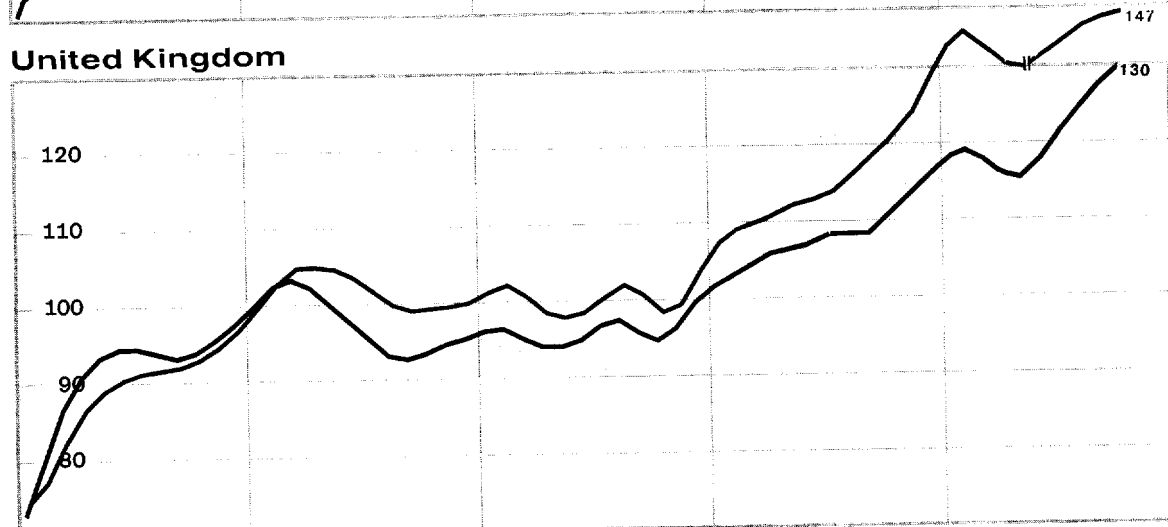
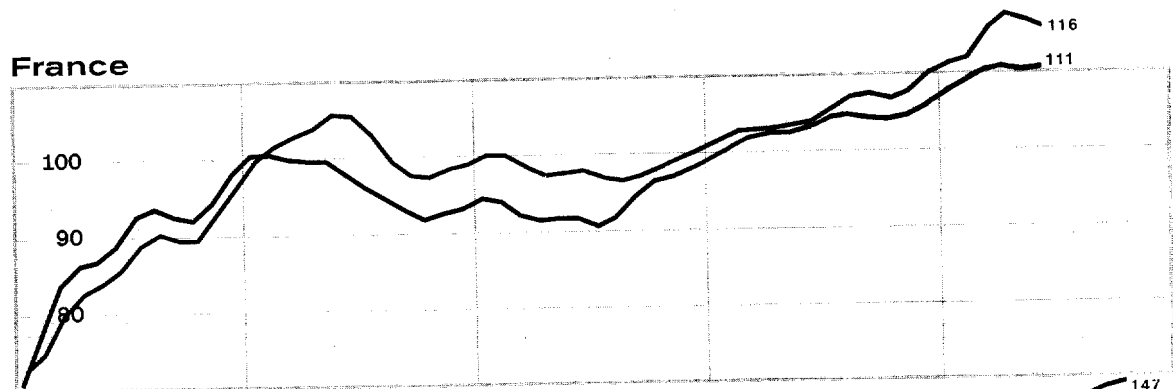


West Germany



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¹Export and import plots are based on five-month weighted moving averages.



SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION ¹

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier ²
India	Jun 78	-1.8	5.1	5.4	18.2
South Korea	Jul 78	-2.0	22.0	20.2	23.2
Mexico	Jun 78	0	6.2	8.5	27.7
Nigeria	78 I	6.8	11.4	0.5	30.0
Taiwan	Aug 78	3.0	16.3	31.0	42.1

¹ Seasonally adjusted.

² Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY ¹

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier ²
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Apr 78	2.5	14.0	16.3	13.1
Iran	Jul 78	1.8	28.5	28.9	20.7
South Korea	Aug 78	5.8	31.3	30.9	26.2
Mexico	Jul 78	1.9	21.0	37.3	26.4
Nigeria	May 78	-2.4	33.5	9.3	14.8
Taiwan	May 78	0.6	25.1	32.8	40.8
Thailand	Apr 78	-3.2	13.3	12.5	32.3

¹ Seasonally adjusted.

² Average for latest 3 months compared with average for previous 3 months.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			1970	1 Year Earlier
Brazil	Jun 78	4.1	28.3	38.0
India	Jun 78	1.2	7.5	2.2
Iran	Aug 78	-0.4	11.8	7.8
South Korea	Sep 78	2.2	14.6	15.6
Mexico	Aug 78	1.0	15.1	17.0
Nigeria	Dec 77	3.1	16.6	31.3
Taiwan	Aug 78	1.9	9.8	-0.6
Thailand	Jun 78	0.9	8.7	8.4

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	May 78	0.6	8.0	-2.8
Iran	Aug 78	-1.3	10.0	7.8
South Korea	Sep 78	2.0	15.8	12.3
Mexico	Aug 78	-0.2	16.3	13.8
Taiwan	Aug 78	0.4	8.1	1.6
Thailand	Mar 78	-0.1	9.4	5.8

EXPORT PRICES

US \$

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			1970	1 Year Earlier
Brazil	Feb 78	0.4	14.0	1.5
India	Sep 77	-2.7	10.0	18.4
South Korea	78 II	2.4	8.8	8.9
Taiwan	Jun 78	1.9	11.3	3.3
Thailand	Dec 77	0.1	10.2	-7.8

OFFICIAL RESERVES

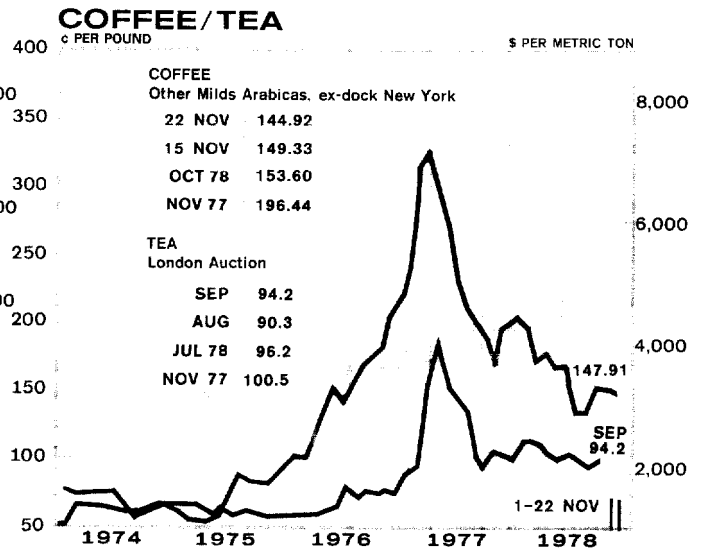
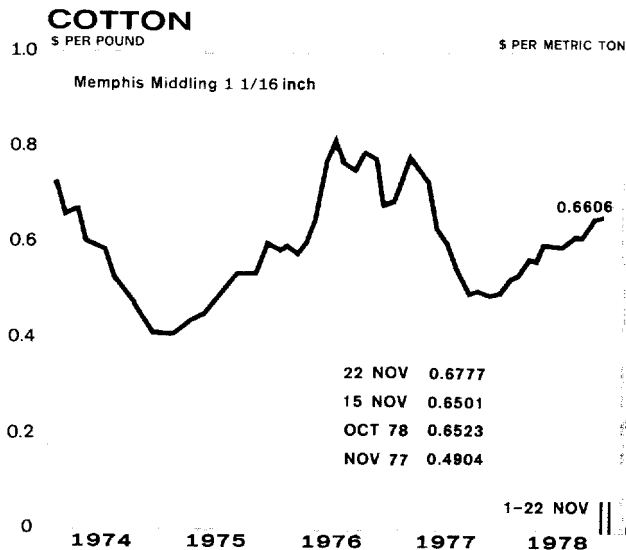
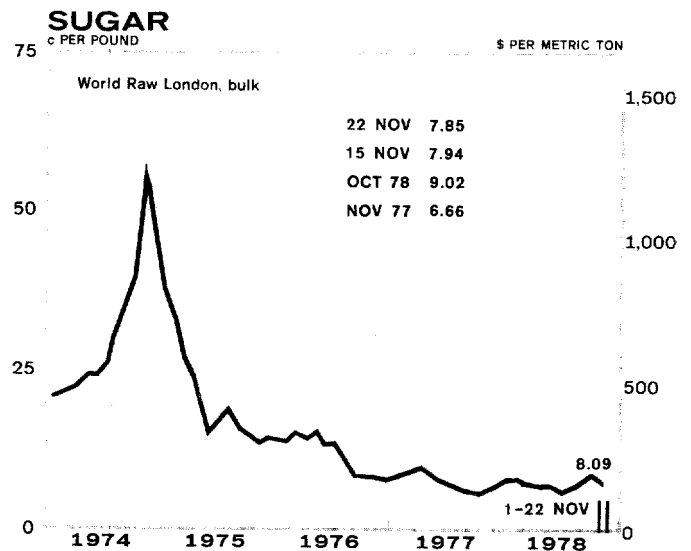
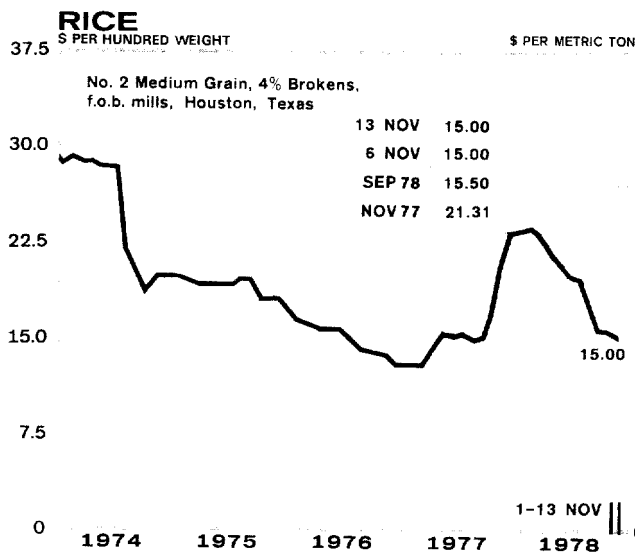
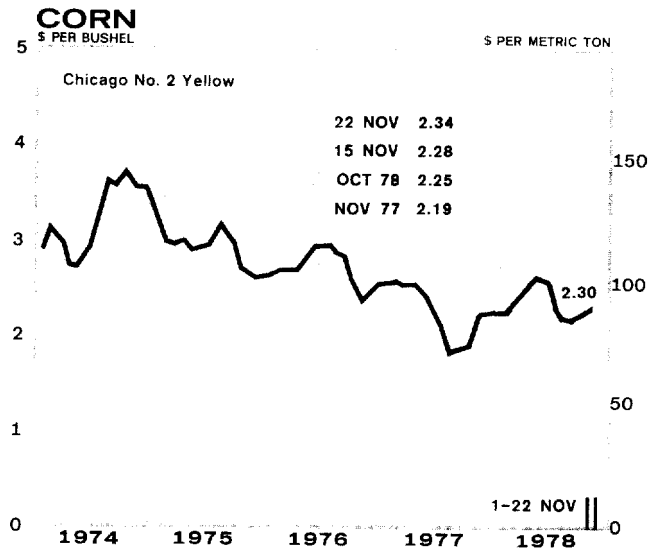
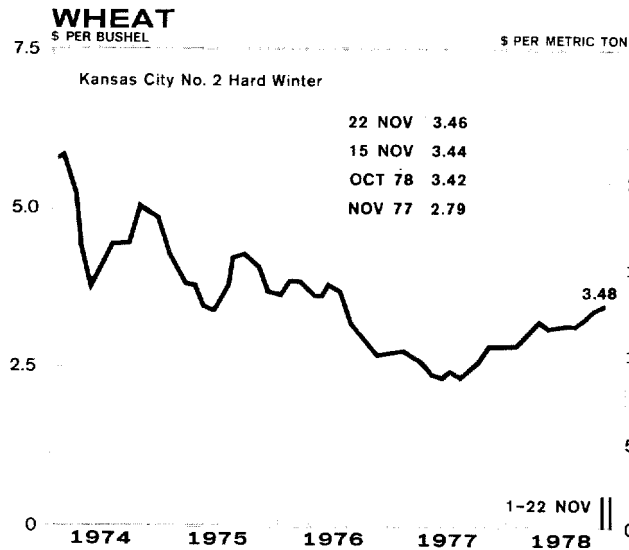
	Latest Month	Million US \$			
		End of	Million US \$	1 Year Earlier	3 Months Earlier
Brazil	Feb 78		6,733	1,013	5,878
India	Jul 78		6,117	1,006	4,395
Iran	Sep 78		11,659	208	11,463
South Korea	Aug 78		4,354	602	3,765
Mexico	Mar 78		1,766	695	1,422
Nigeria	Sep 78		1,558	148	4,597
Taiwan	Jun 78		1,462	531	1,411
Thailand	Sep 78		2,269	978	1,925

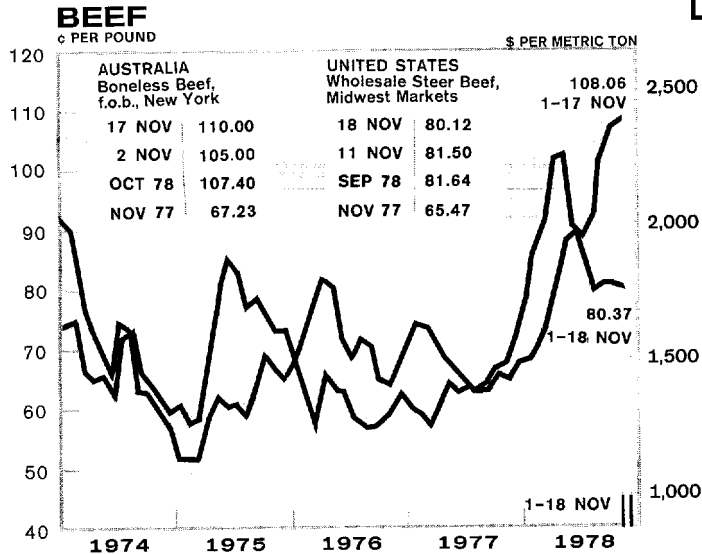
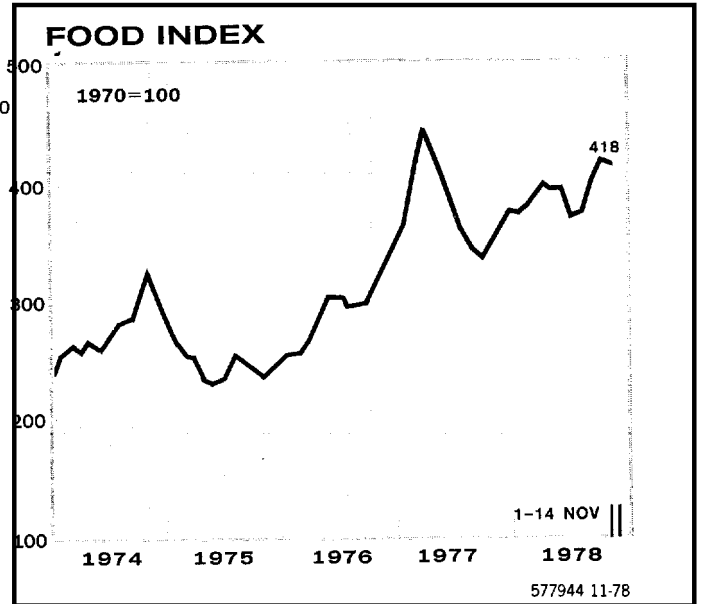
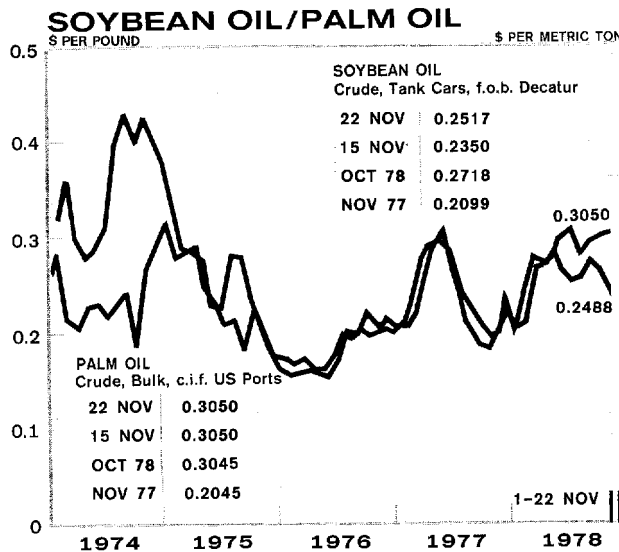
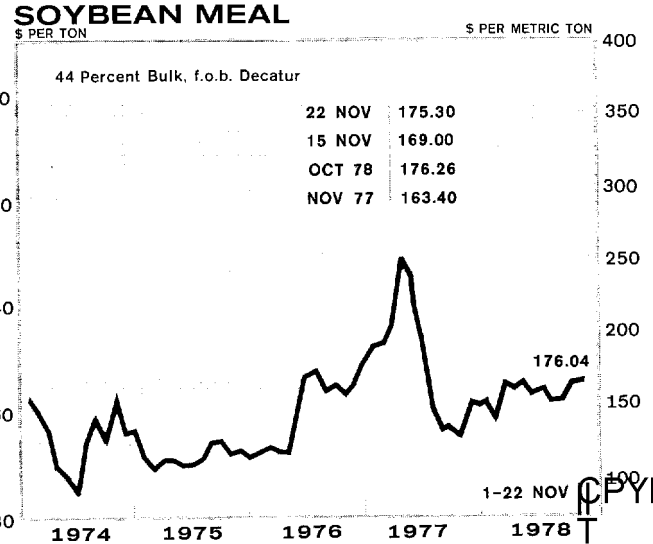
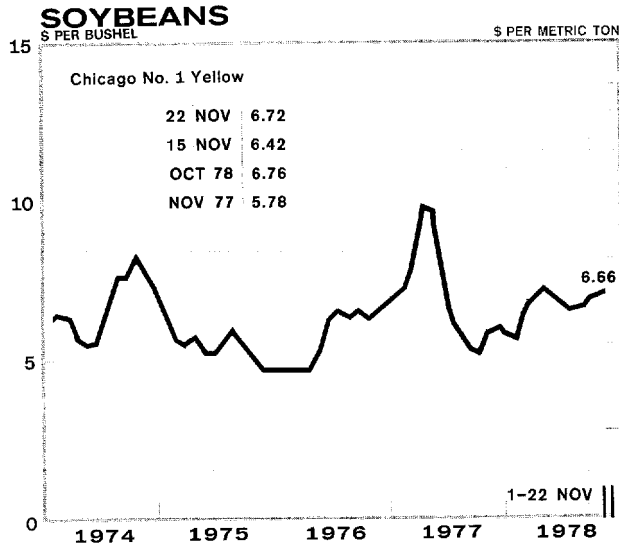
FOREIGN TRADE, f.o.b.

			Latest 3 Months Percent Change from		Cumulative (Million US \$)		
Latest Period			3 Months Earlier ¹	1 Year Earlier	1978	1977	Change
Brazil	May 78	Exports	84.8	-3.7	4,743	4,979	-4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			-367	40	-407
India	Mar 78	Exports	-19.6	-13.5	1,476	1,707	-13.5%
	Mar 78	Imports	-24.1	9.7	1,444	1,316	9.7%
	Mar 78	Balance			32	391	-358
Iran	Aug 78	Exports	2.9	10.4	15,868	15,635	1.5%
	May 78	Imports	-1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	-783
South Korea	Jul 78	Exports	39.3	23.5	6,749	5,351	26.1%
	Jul 78	Imports	83.0	29.2	7,284	5,695	27.9%
	Jul 78	Balance			-535	-344	-191
Mexico	Jul 78	Exports	78.8	29.8	2,867	2,453	16.9%
	Jul 78	Imports	225.3	41.9	3,596	2,751	30.7%
	Jul 78	Balance			-728	-298	-430
Nigeria	78 II	Exports	86.7	-26.0	1,808	2,526	-28.4%
	78 I	Imports	579.5	115.0	1,808	841	115.0%
	78 I	Balance			-974	368	-1,342
Taiwan	Aug 78	Exports	84.2	38.7	8,044	5,884	36.7%
	Aug 78	Imports	68.9	32.5	6,439	5,119	25.8%
	Aug 78	Balance			1,605	765	840
Thailand	Jul 78	Exports	7.1	10.4	2,246	2,099	7.0%
	Jul 78	Imports	51.5	13.8	2,697	2,330	15.7%
	Jul 78	Balance			-450	-231	-219

¹ At annual rates.

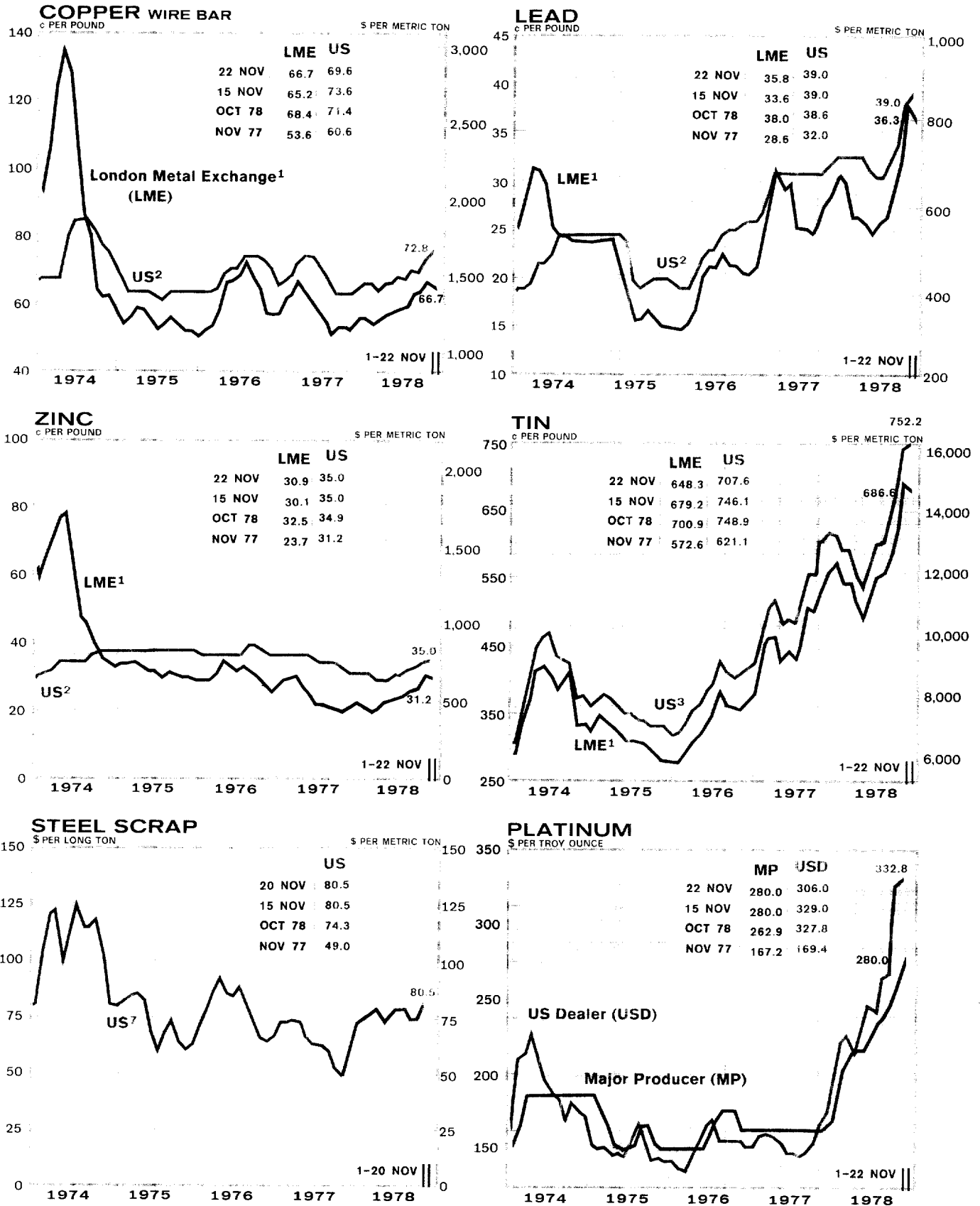
AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE





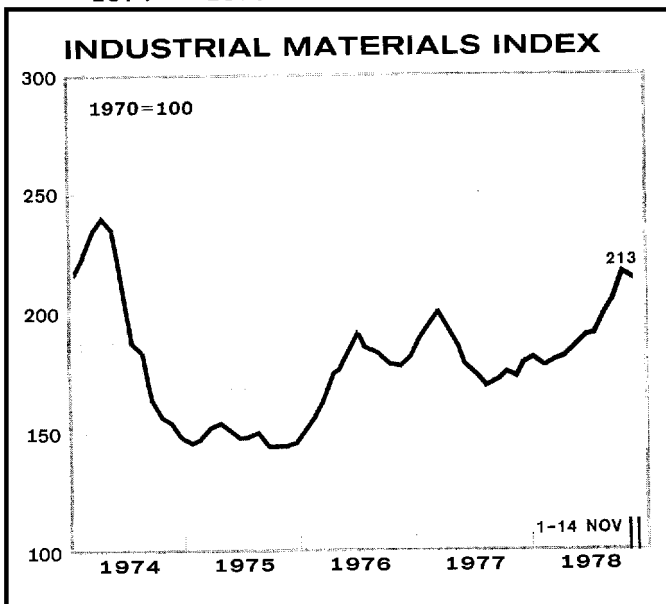
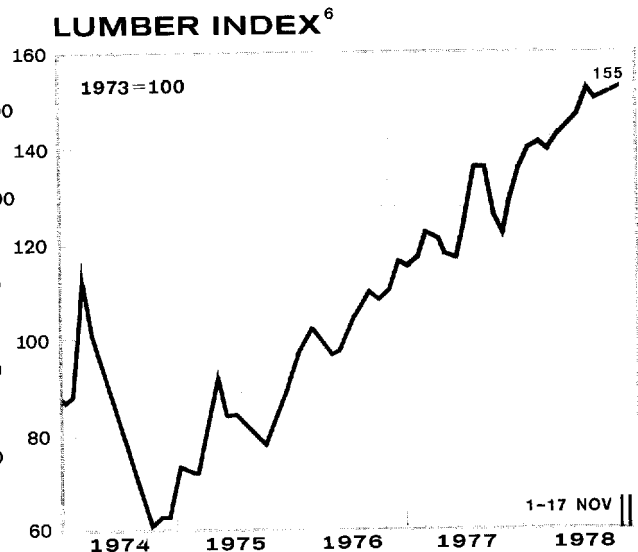
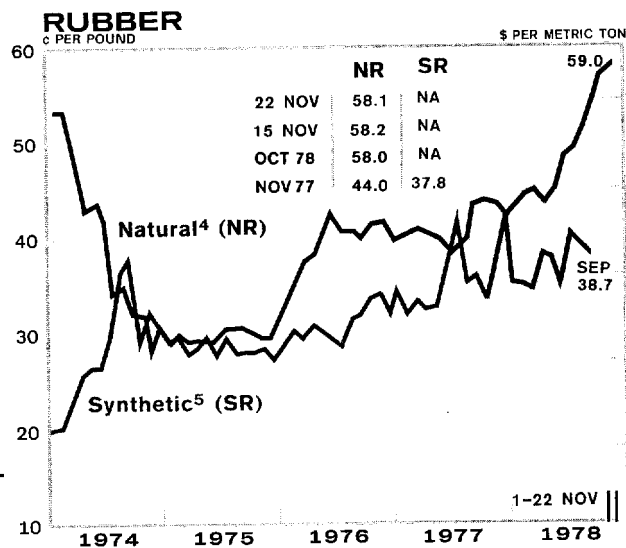
NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE



SELECTED MATERIALS

			CURRENT	MAY 78	NOV 77	NOV 76
ALUMINUM	Major US Producer	¢ per pound	55.25	53.00	53.00	48.00
US STEEL	Composite	\$ per long ton	419.31	395.81	359.36	327.00
IRON ORE	Non-Bessemer Old Range	\$ per long ton	22.55	21.43	21.43	20.51
CHROME ORE	Russian, Metallurgical Grade	\$ per metric ton	NA	NA	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	\$ per long ton	56.00	56.00	58.50	42.00
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	42.00	42.00	41.00	43.00
NICKEL	Composite US Producer	\$ per pound	2.02	2.06	2.07	2.41
MANGANESE ORE	48 Percent Mn	\$ per long ton	67.20	67.20	72.24	72.00
TUNGSTEN ORE	Contained Metal	\$ per metric ton	18,348.00	17,169.00	22,113.00	18,082.00
MERCURY	New York	\$ per 76 pound flask	153.00	150.55	138.43	134.50
SILVER	LME Cash	£ per troy ounce	574.77	514.64	482.70	436.90
GOLD	London Afternoon Fixing Price	\$ per troy ounce	203.50	176.31	162.10	130.44



¹Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

²Producers' price, covers most primary metals sold in the US.

³As of 1 Dec 75, US tin price quoted is "Tin NY 1b composite."

⁴Quoted on New York market.

⁵S-type styrene, US export price.

⁶This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

⁷Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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